



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-May-2024 | Report No: PIDA37524



## BASIC INFORMATION

### A. Basic Project Data

Country Azerbaijan	Project ID P181649	Project Name Additional Financing for Employment Support Project	Parent Project ID (if any) P171250
Parent Project Name Employment Support Project	Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 20-May-2024	Estimated Board Date 25-Jul-2024
Practice Area (Lead) Social Protection & Jobs	Financing Instrument Investment Project Financing	Borrower(s) Republic of Azerbaijan	Implementing Agency Ministry of Labor and Social Protection of the Population (MLSPP)

#### Proposed Development Objective(s) Parent

The Project Development Objective is to improve vulnerable people's access to employment.

#### Components

1. Enhancing the scope and effectiveness of the Self-Employment Program
2. Strengthening employment services and programs
3. Project Management, Monitoring and Evaluation

## PROJECT FINANCING DATA (US\$, Millions)

### SUMMARY

Total Project Cost	176.26
Total Financing	176.26
of which IBRD/IDA	150.00
Financing Gap	0.00

### DETAILS

#### World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	150.00
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#### Non-World Bank Group Financing



Counterpart Funding	26.26
Borrower/Recipient	26.26
Environmental and Social Risk Classification	
Moderate	

Other Decision (as needed)

## B. Introduction and Context

### Country Context

1. **Over the past 15 years, Azerbaijan has achieved upper-middle-income status, driven by strong economic growth, primarily through hydrocarbon exploitation and high public spending, which increased GNI per capita from US\$3,220 in 2000 to US\$13,790 in 2017.** However, this growth has not translated into high productivity jobs, with most of the employment still in low productivity sectors like agriculture and trade services. Despite a significant reduction in poverty from 30 percent in 2005 to around 6 percent in 2020, and a near elimination of extreme poverty, recent economic slowdowns and the COVID-19 crisis have increased the number of poor and vulnerable households.<sup>1</sup> The labor market has seen a 30 percent employment growth from 1991 to 2020, with a shift from agricultural to service sector jobs, but job creation has stagnated due to slow diversification from fossil-based industries and a lack of skilled workforce. Unemployment is relatively low at 4.8 percent in 2019, but labor market outcomes are particularly challenging for women, youth, and internally displaced persons, with over two-thirds of workers in the informal sector, which limits access to social insurance and increases the risk of poverty in old age.

2. **The Government of Azerbaijan has been continuing its efforts to improve the labor market outcomes for vulnerable population.** However, the existing labor market challenges, for example, inadequate skills among the labor force (66 percent of economically active population is unskilled), high share of agricultural employment in total employment (36 percent), high informality rate (estimated at 30-40 percent), high unemployment among women (6.5 percent versus 4.8 percent among men), low female employment (only 39 percent of employed), and skills mismatches (e.g., scarcity of labor for manufacturing and services jobs) increases the burden on the Azerbaijan Public Employment Agency (APEA) and causes job seekers and unemployed people to remain either inactive or unemployed for extended periods. Similarly, only 30 percent government's active labor market program (ALMP) beneficiaries are women. Inactivity is also high, and females have a high probability of dropping out of the labor force after childbirth. Based on the achievements under the project, the GoA requested an Additional Financing (AF) to scale up existing employment programs and services and adapt and pilot others to serve more vulnerable populations and certain target groups, and promote the sustainability of businesses under the project.

### Sectoral and Institutional Context

<sup>1</sup> Vulnerable groups include women, youth, internally displaced persons [IDPs], people with disabilities and social assistance beneficiaries.



3. **Labor market in Azerbaijan was characterized by relatively strong aggregate employment growth over the past three decades. Between 1991 and 2020, total employment grew by almost 30 percent from 3,78 million to 4,88 million persons.** Employment structure by main sectors of economic activity has also undergone some change. Employment shares of the main economic sectors fluctuated mainly between 1991 and 2019. Employment share of services grew quite steadily during 1990-ties from 45 percent to 49 percent and then fluctuated around that level. At the same time, employment share of agriculture decreased while that of industry has not changed significantly in this period.

4. **Job creation has plateaued with slow diversification away from fossil-based industries and their affiliates and lack of skilled workforce.** Inadequate human capital base hinders economic diversification as well as increased employment, innovation, and competitiveness. To build and strengthen the skills base needed for Azerbaijani workers to participate more actively and productively in the labor market, it is necessary to improve the quality of education and training provision (both formal and adult learning)<sup>2</sup>. Besides that, another important issue, linked to both employment and social protection is the situation of vulnerable groups (such as women, youth, internally displaced persons [IDPs] and people with disabilities) as they face a higher risk of exclusion from the labor market than any other category given their lower human capital and larger constraints to enter the labor market.

5. **While unemployment is lower than the ECA average, labor market outcomes for women, youth, internally displaced persons, and people with lower education levels need to improve.** Unemployment rate in Azerbaijan was 4.8 percent in 2019, lower than the ECA average of 6.8 percent.<sup>3</sup> Azerbaijan is experiencing a youth bulge in the short run, which holds the potential for reaping a demographic dividend. In the long run, however, aging of the population will put pressure on the labor force. Low female labor force participation and a high rate of young females who are not in employment, education, and training (NEET) – if kept at current rates – will exacerbate this trend. Regarding the composition of the workforce, too many Azerbaijanis work in low-productivity agriculture. The public sector absorbs a large share of the workforce, especially with respect to higher educated workers. Relatively low quality of education and low tertiary enrollment are key factors limiting the workforce from engaging in high-productivity work.<sup>4</sup> Finally, only about 30 percent of workers have a formal work contract, not only limiting potential for skills development and significantly constraining work conditions today, but also implying that the vast majority of the currently employed in Azerbaijan lacks access to contributory pensions and other types of social insurance, increasing risk of poverty at their old age.<sup>5 6</sup>

6. **Though Azerbaijan has recently increased investment in social policies, social protection spending is still low compared to the regional average.** The government has made significant improvements related to social and labor policies since 2019, such as increasing the coverage of the main social assistance program, increasing the minimum wage and pension benefit amounts, and launching the DOST offices to improve the efficiency of the social services delivery. The share of the total government budget<sup>7</sup> allocated to social protection including social insurance, social

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<sup>2</sup> Strategic Human Capital Investments to Accelerate Azerbaijan's Growth, International Bank for Reconstruction and Development / The World Bank, 2020.

<sup>3</sup> Source: ILO

<sup>4</sup> World Bank. 2019. "Improving Employment Outcomes in Azerbaijan". Working Paper, Washington DC: World Bank.

<sup>5</sup> Ibid.

<sup>6</sup> World Bank. 2022. Azerbaijan: Systematic Country Diagnostic Update. Washington, DC: World Bank.

<sup>7</sup> In 2019, the total government budget was AZN 25 billion, 11.2 percent higher than the previous year, in part to address social issues.



assistance, and labor market programs was 10.3 percent (AZN 2.3 billion) in 2019. This was 11 percent higher than the previous year, representing about 5 percent of GDP.

7. **Almost two-thirds of the population benefits from social protection transfers, although coverage of the poor people with social assistance is low.** In 2017, about 50 percent of households were recipients of contributory social insurance transfers (mostly pensions) and about 25 percent of households were recipients of social assistance programs.

8. **The Azerbaijan Public Employment Agency (APEA)<sup>8</sup> offers a limited array of ALMPs.** The APEA is an agency subordinated to the MLSPP and is responsible for the implementation of public employment services (PESs) and programs. It has about 86 local offices in the country and approximately 713 staff. Programs available to registered unemployed people include job research, job counseling, vocational training, vacancy fairs, public works, the SEP, and unemployment assistance benefits.

#### Progress to Date

9. **Overall, implementation of the Employment Support Project is on track with both implementation progress and progress toward achievement of the Project Development Objective (PDO) being Satisfactory.** Implementation is currently on track, disbursements reached US\$64 million in April 2024, despite having been slower than originally planned (due to contracting and delivery challenges related to the assets<sup>9</sup> to be distributed to beneficiaries). The government is highly committed to the project objective and co-financed it in the amount of US\$8.625 million by December 31, 2023. In addition, monitoring reports point to a low dropout rate for business training (about 10 percent), a high satisfaction rate to the services provided, and a share of beneficiaries who report an increase in income after participating in the project.

10. **Under component 1 of the project, significant progress has been made in enhancing the SEP.** As of the end of March 2024, 64,791 people have applied to participate on the program, with initial monitoring conducted for 31,290 applicants. A total of 20,526 individuals enrolled to the business training; 18,260 individuals successfully completed it and 17,080 had their business plans approved; and 14,869 received asset packages. The trainings largely benefited vulnerable groups such as women, youth, IDPs, and targeted social assistance recipients. Business activities in demand include tailoring, beauty salons, bakeries, car cleaning, and auto mechanics. An online platform for vocational training for SEP beneficiaries was launched, and follow-up visits were conducted for 10,683 beneficiaries, totaling 28,588 visits since February 2022. Over 20 online training modules have been developed for occupations selected for self-employment. Additionally, the project is piloting matching grants and business awards in the Ganja-Daskesen economic zone, with 10 winners selected from 33 applicants in December 2023. Preliminary results of the beneficiary impact assessment indicate that about 70 percent of the asset beneficiaries are in business 24 months after receipt and close to 80 percent of beneficiaries are satisfied with the services received related to the SEP.

11. **Components 2 and 3 also presented a satisfactory progress, and the project contributed to strengthening employment services and programs.** This included labor market assessments, development of a Vocational Training Center (VTC) strategy, a Targeted Social Assistance (TSSA) exit strategy, and suggestions for improved profiling and case management. The SEP Operational Manual was completed, and the VTC Strategy is now in effect. Under component 3,

<sup>8</sup> The APEA is an agency under the MLSPP. The former names are State Employment Services (SES) and State Employment Agency (SEA).

<sup>9</sup> The program includes a list of asset packages containing essential equipment for selected businesses such as beauty parlors, mechanics, agrotourism, bakeries, restaurants, etc., awarded to program beneficiaries who have successfully defended a business plan after having completed the business training.



the project focused on management and monitoring and evaluation (M&E), with consultancies for grievance redress, M&E activities, IT system assessment, and communications. The project's FM and procurement performance are rated Satisfactory. The project is in compliance with relevant FM covenants, there are no overdue audits, and the counterpart timely submits quarterly interim financial reports. The procurement of goods and selection of consultant services is being implemented in line with the agreed rules and provisions. Environmental and Social (E&S) capacity has been bolstered with contracted specialists and training on E&S requirements, including the approval of 20 site-specific Environmental and Social Management Plans (ESMPs).

### C. Proposed Development Objective(s)

#### Original PDO

The project development objective is to improve vulnerable people's access to employment.

#### Current PDO

The project development objective is to improve vulnerable people's access to employment.

#### Key Results

The achievement of the PDO will be measured by the following indicators:

- (a) Share of SEP businesses in operation 12 months after asset receipt, by vulnerable group (percentage)
- (b) Share of matching grant beneficiaries in operation (12 months after receipt of matching grant) (Percentage)
- (c) Share of employed apprenticeship, wage subsidy, and OJT beneficiaries (12 months after program) (Percentage)

### D. Project Description

#### Rationale for the Proposed AF

12. **The GoA is requesting an AF and a project restructuring to scale up the SEP and other key wage employment support measures in line with their socioeconomic strategy targets on job promotion and poverty reduction.** Government has ambitious targets for its flagship SEP, and expansion and deepening of its skills training programs. For SEP and vocational training programs, the annual target is 15,000 beneficiaries respectively. Similarly, the government intends to pilot and introduce certification for such programs. The AF will support reaching these goals scaling up all three project components. It would provide: (i) financing for SEP to expand its coverage (component 1), (ii) additional support to SEP beneficiaries (mentoring and matching grants) and wage subsidy and on-the-job-training programs (component 2) to improve sustainability of micro-businesses and create conditions for job creation, and (iii) financing for development and piloting of a model for assessment and certification of vocational training and apprenticeship programs. These programs will target and benefit SEP beneficiary micro-enterprises as well as other firms and vulnerable jobseekers and the unemployed with limited options of income generation and/or employment. These additional activities will further contribute to building resilience against climate and other shocks while supporting human capital development. The AF would also finance institutional strengthening (component 2) for service delivery and project management and labor market monitoring capacity for the implementing entities (component 3). The restructuring is aimed at introducing a broader set of active labor market measures (ALMM) under component 1 (without changing the component amount) and revising some selected indicators.

13. **The original PDO, to improve vulnerable people's access to employment, will remain as is.** The AF will expand coverage of the project activities to increase the number of beneficiaries as well as expanding the breadth of offered

services and programs, not changing the nature of the project, which will not warrant a modification of the PDO. With the AF, further support will also be provided to the implementing agencies—the Ministry of Labor and Social Protection of the Population (MLSP), APEA, and the National Observatory, to improve delivery of employment services and labor market monitoring. The results are expected to have positive impacts on access to employment for the vulnerable people.

#### Description of AF

14. **The AF would require changes to the component activities, component costs, the results framework, and the closing date.** The amount of the proposed additional financing is US\$150 million, increasing the overall project budget to US\$250 million. Most of the AF will be allocated to component 1 given the high demand for self and wage employment support. The disaggregation of cost by components and activities suggested to be added to the project through AF will be prepared and agreed with the counterparts during appraisal. The project closing date is proposed to be extended until December 31, 2029.

**Table 1. Component Costs**

Component Name	Cost of parent project (US\$, millions)		Cost of AF (US\$, millions)		Total Cost (US\$, millions)	
	IBRD	Gov	IBRD	Gov	IBRD	Gov
1. Enhancing the scope and effectiveness of the Self-Employment Program (SEP)	95.50	16.97	133.85	24.09	229.35	41.06
2. Strengthening employment services and programs	2.00	0.36	10.17	1.84	12.17	2.20
3. Project management, monitoring, and evaluation	2.50	0.39	5.98	0.33	8.48	0.72
<b>Total</b>	<b>100.00</b>	<b>17.72</b>	<b>150.00</b>	<b>26.26</b>	<b>250.00</b>	<b>43.98</b>

15. **The activities under component 1 will be scaled up.** The SEP activities will be expanded to increase the program outreach in response to increased demand for financing economic activities in alternative occupations outside agriculture with a focus on manufacturing and services to promote diversification of economic activity and resilience against shocks. Furthermore, the AF will provide an opportunity to pilot an improved cash-matching grant scheme with an extended group of successful beneficiaries. The existing matching grant scheme is an in-kind/asset-based grant that allows limited flexibility to beneficiaries in economic activities expansion. With a cash-based matching grant scheme, successful micro-businesses/beneficiaries will be able to apply for a cash grant to utilize the funds toward indicated expenditures in their business plans. A cash grant program could also reduce some of the administrative costs associated with the procurement and distribution of assets, which can be used toward supporting more beneficiaries and/or increasing the grant amounts.

16. **Component 1 will also finance asset packages, which will include new technological equipment that meets modern standards, as well as new packages for businesses which are aligned with market demand.** New asset packages will include “green” equipment and elements. Business and online technical trainings will include elements to raise awareness on energy efficient business practices including water conservation, using green energy sources, sustainable waste management practices and occupational safety in hazardous climate conditions. In addition, low-cost measures such as inclusion of solar panels and other energy saving complementary equipment in asset packages will be financed



in a sustainable manner. Occupations and business selection will also favor “green business” models in beneficiary selection. The details will be defined in the Project Operational Manual.

17. **Scaled-up activities under component 2 would directly support strengthening of employment programs and services for SEP beneficiaries and registered jobseekers and unemployed.** The AF would improve the capacity of the employment agency to deliver employment services and programs by expanding the range of services and programs offered and improving its processes and tools. The component will finance additional ALMMs consisting of on-the-job training, wage subsidies, and apprenticeship program (with an option of using private intermediaries), and vocational training development and certification fee reimbursement for selected occupations. It will also finance development of on-line and in-person short-term vocational training courses. In addition, a skill-assessment tool to be used by job seekers themselves and/or employment agency counselors as a digital tool for job-matching and placement onto ALMMs and a counseling monitoring system will be developed. Institutional support (training and equipment) for the Agency for Sustainable and Operational Social Security (DOST) centers (social work centers) and VTCs run by the MLSPP will also be provided. Finally, financing will be provided to strengthen the Labor Market Information System (LMIS), which is housed within the employment agency. This will consist of expanding functionalities of the existing LMIS and incorporating the counseling and assessment tools to be developed into the system.

18. **The employment services and programs offered will be expanded and their processes and tools will be improved.** The expected changes under Component 2 will include:

- (a) **Development and financing of additional ALMMs:** On-the-job training, apprenticeship, and wage subsidy programs for hiring of socially vulnerable will be developed and financed, primarily aiming to support the self-employed program beneficiaries to expand their businesses and become more sustainable. The program will provide financial incentives and stipends for the employers (self-employed/micro-businesses and other firms) and the unemployed from selected target groups to be assigned to the programs. Training will primarily target low-skilled and hard-to-employ jobseekers. The apprenticeship program will provide financial incentives to all interested firms to participate in a structured in an on-the-job and off-the-job training program to attract and test the workforce. The jobseekers will be selected from less-employable and less-skilled group of jobseekers with a focus on youth, women, and the vulnerable. For all three measures, a private provider will be used to match jobseekers with interested employers.
- (b) **Vocational training program in select occupations and for targeted registered unemployed.** The component will finance adjustment and development of vocational training courses for select occupations in line with international and national norms and competencies and vocational training program fees for targeted registered unemployed who are assessed and assigned to vocational training programs. The programs will be implemented by VTCs.
- (c) **Development and piloting of a certification/accreditation for skills training (vocational, on-the-job training, and apprenticeship).** The component will finance international experts to support development and piloting of an assessment and certification mechanism for select occupations in demand locally and internationally. The scheme will be developed in partnership with the private sector, i.e., individual employers and/or industry associations and vocational training institutions to ensure its alignment with market demand and employer buy-in.
- (d) **Development and roll-out of a skill-assessment tool.** A skills assessment tool will be developed and operationalized to help measure competencies of registered jobseekers. The component will finance experts to support the development of a tool, materials, and software as well as training for counselors.
- (e) **Development of career counseling monitoring system.** The component will finance experts to support development of a career counseling monitoring software and training materials for counselors. The system will help counselors to provide a variety of services to students, new job seekers, monitor jobseeker





performance and important milestones online including referrals and changes in status of the jobseeker. This will also become a basis for a career counselor performance monitoring system.

- (f) **Institutional support for APEA and DOST centers.** The component will finance strengthening of administrative linkages between DOST centers and APEA. It will also finance operationalization of digital tools used by APEA including training for DOST counselors.

19. **Component 3 (project management activities) would also receive additional financing, to ensure proper implementation of the enlarged programs and to strengthen project monitoring and evaluation activities.** Project evaluation activities would include evaluations of on-the job-training, apprenticeship, the wage subsidy scheme, the vocational training voucher program, and the matching grant scheme in addition to SEP evaluations. The AF would finance the LMIS strengthening. Labor market monitoring and improvement of LMIS activities are complementary to the activities for supporting the job matching process and APEA's counseling services under component 2.

20. **Proposed changes under component 3 will add the National Observatory as a subimplementing agency to be responsible for implementation of a series of labor monitoring activities.** The changes under this new implementation arrangement will include:

- (a) **Support for labor market monitoring.** A set of activities (e.g., labor demand surveys, monitoring global trends in the labor market through existing evidence/data) specifically to support the project outcomes and more broadly the Ministry's mandate will be financed. The National Observatory will carry out these activities on behalf of the MLSPP and coordinate closely its activities with the Ministry's flagship labor market programs.
- (b) **Strengthening of the LMIS.** The project will finance diagnostic work, additional modules, and trainings to strengthen the functionality of the existing electronic labor market related databases and platforms (known as EMAS) to ensure: (a) public access to key labor market related data; and (b) linkages between different databases which track jobseekers, vacancies, ALMMs, unemployment benefits, TSA benefits, and occupational demand and existing stock of skills and competencies.
- (c) **Project M&E.** The component will finance impact evaluation of all ALMMs supported under the project in addition to the beneficiary satisfaction, process evaluation, and self-employment program evaluation surveys.

21. **The AF's scaled-up activities are expected to contribute to the advancement of key development priorities for Azerbaijan.** The AF would support the national priorities of Socio-Economic Development Strategy (2022-2026) and the Employment Strategy (2019 – 2030). The Employment Strategy focuses on transition from social assistance to labor market for work able individuals, developing the skills of the workforce, expanding the scope, and increasing the efficiency of active employment measures, and increased private sector collaboration in trainings and developing additional demand driven programs. Therefore, AF would contribute increasing human capital potential, increasing the effectiveness of employment services, and promoting labor market participation, skill enhancement, and inclusiveness. In addition, the AF is also aligned with the objective of promoting more productive and inclusive jobs, highlighted in the World Bank Group's Country Partnership Framework for Azerbaijan (FY25-29) under preparation, by promoting economic diversification and with a focus on improved financing mechanisms and efficiency of service delivery.

22. **Climate change.** The AF is expected to support climate change adaptation and mitigation aspect to a greater extent than the parent project. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation.**



Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

**E. Implementation**

Institutional and Implementation Arrangements

23. **Institutional and implementation arrangements will remain the same. The project will keep being implemented under the leadership of the MLSP.** The MLSP is responsible for developing employment policies and monitoring their implementation. Implementation will be supported by a Project Implementing Unit (PIU) functioning within the MLSP and will operate with the close involvement of the Employment Policy Department, the APEA and the National Observatory – all reporting to the MLSP.

24. **The PIU is responsible for procurement, disbursement, monitoring, and reporting on the use of loan proceeds.** The PIU includes a director for this operation, who has overall responsibility for the implementation of the proposed project on the ministry’s side. Given the complexity and multisectoral project design, the PIU includes two sector specialists, one focusing on self-employment and another on labor market programs. Further specialists on procurement, financial management, M&E, and environmental and social safeguards are also hired by the PIU and will continue to work on the project. The PIU also hired consultants, business trainers, and mentors, who will be providing technical and business support to SEP and other ALMMs beneficiaries. Implementation arrangements will ensure continuous strengthening of the MLSP’s capacity to promote long-term sustainability of the reforms.

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