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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF

US\$150 MILLION AND RESTRUCTURING

TO THE

REPUBLIC OF AZERBAIJAN

FOR AN

EMPLOYMENT SUPPORT PROJECT

June 28, 2024

Social Protection and Jobs Global Practice
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2024)

Currency Unit = Azerbaijani Manat (AZN)

AZN 1 = US\$0.588

US\$1 = AZN 1.7

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AM	Accountability Mechanism
AF	Additional Financing
ALMM	Active Labor Market Measures
ALMP	Active Labor Market Program
APEA	Azerbaijan Public Employment Agency (former State Employment Agency, SEA)
CMM	Contract Management Module
DOST	Agency for Sustainable and Operational Social Security
E&S	Environmental and Social
EHSG	Environmental Health and Safety Guidelines
ESMF	Environmental and Social Management Framework
ESS	Environmental and Social Standards
EU	European Union
FM	Financial Management
GNI	Gross National Income
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IDP	Internally Displaced Person
IPF	Investment Project Financing
IRR	Internal Rate of Return
ISR	Implementation Status and Results Report
LMIS	Labor Market Information System
M&E	Monitoring and Evaluation
MIS	Management Information System
MLSPP	Ministry of Labor and Social Protection of the Population
NEET	Not in Education, Employment, or Training
NPV	Net Present Value
OECD	Organization for Economic Co-operation and Development
OJT	On-the-Job Training
PDO	Project Development Objective
PIU	Project Implementing Unit
POM	Project Operational Manual
PPSD	Project Procurement Strategy for Development
SEP	Self-Employment Program
STEP	Systematic Tracking of Exchanges in Procurement
TSSA	Targeted State Social Assistance
VTC	Vocational Training Center

Azerbaijan

Additional Financing for Employment Support Project

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BASIC INFORMATION – PARENT (Employment Support Project - P171250)

Country Azerbaijan	Product Line IBRD/IDA	Team Leader(s) Mirey Ovadiya		
Project ID P171250	Financing Instrument Investment Project Financing	Resp CC HECSP (9342)	Req CC ECCSC (7000)	Practice Area (Lead) Social Protection & Jobs

Implementing Agency: Ministry of Labor and Social Protection of the Population (MLSP)

Is this a regionally tagged project? No	
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Bank/IFC Collaboration No

Approval Date 05-Mar-2020	Closing Date 31-Dec-2025	Expected Guarantee Expiration Date	Environmental and Social Risk Classification Moderate
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Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach [MPA]	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)



Development Objective(s)

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

Ratings (from Parent ISR)

	Implementation					Latest ISR
	17-Sep-2021	05-Apr-2022	28-Oct-2022	17-May-2023	15-Sep-2023	15-Apr-2024
Progress towards achievement of PDO	S	S	S	S	S	S
Overall Implementation Progress (IP)	S	S	S	S	S	S
Overall ESS Performance	S	S	S	S	S	S
Overall Risk	M	M	M	M	L	L
Financial Management	S	S	S	S	S	S
Project Management	S	S	S	S	S	S
Procurement	S	S	S	S	S	S
Monitoring and Evaluation	S	S	MS	MS	MS	MS

BASIC INFORMATION – ADDITIONAL FINANCING (Additional Financing for Employment Support Project - P181649)

Project ID	Project Name	Additional Financing Type	Urgent Need or Capacity Constraints
P181649	Additional Financing for Employment Support Project	Restructuring, Scale Up	No



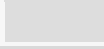


Financing instrument Investment Project Financing	Product line IBRD/IDA	Approval Date 29-Jul-2024	
Projected Date of Full Disbursement 30-Apr-2030	Bank/IFC Collaboration No		
Is this a regionally tagged project? No			

Financing & Implementation Modalities

<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)
<input type="checkbox"/> Contingent Emergency Response Component (CERC)	

Disbursement Summary (from Parent ISR)

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
IBRD	100.00	72.51	27.49	 73 %
IDA				 %
Grants				 %

PROJECT FINANCING DATA – ADDITIONAL FINANCING (Additional Financing for Employment Support Project - P181649)

FINANCING DATA (US\$, Millions)



SUMMARY (Total Financing)

	Current Financing	Proposed Additional Financing	Total Proposed Financing
Total Project Cost	100.00	176.24	276.24
Total Financing	100.00	176.24	276.24
of which IBRD/IDA	100.00	150.00	250.00
Financing Gap	0.00	0.00	0.00

DETAILS - Additional Financing

World Bank Group Financing

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

Counterpart Funding	26.24
Borrower/Recipient	26.24

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any other Policy waiver(s)?

Yes No



Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

INSTITUTIONAL DATA

Practice Area (Lead)

Social Protection & Jobs

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

**PROJECT TEAM****Bank Staff**

Name	Role	Specialization	Unit
Mirey Ovadiya	Team Leader (ADM Responsible)		HECSP
Sirma Demir Seker	Team Leader		HECSP
Sepehr Fotovat Ahmadi	Procurement Specialist (ADM Responsible)		EECRU
Tural Jamalov	Financial Management Specialist (ADM Responsible)		EECG1
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Gulana Enar Hajiyeva	Environmental Specialist (ADM Responsible)		SCAE1
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Helena Nejedla	Team Member		ECCVM
Loan Thi Phuong Nguyen	Team Member		HECSP
Ngoc Dung Thi Tran	Team Member		HECSP
Rahmoune Essalhi	Procurement Team		EECRU
Renata Mayer Gukovas	Team Member		HECSP
Ria Nuri Dharmawan	Team Member		LEGLE
Sabina Guliyeva	Team Member		ECCAZ
Vusala Asadova	Procurement Team		ECCAZ

Extended Team

Name	Title	Organization	Location
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I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

A. Introduction

1. **This Project Paper seeks the approval of the Executive Directors to provide a first additional financing (AF) in the amount of US\$150 million for the ongoing Employment Support Project (P171250).** The AF is to (a) introduce a broader set of active labor market measures (ALMMs) under Component 1 (without changing the component amount in the parent project); and (b) update the project results framework to reflect the scale-up and additional scope of activities and align it with the new World Bank Group Scorecard. The project development objective (PDO) will remain unchanged. A level 2 restructuring to extend the project closing date by four years to December 31, 2029, is also proposed for the management approval.

2. **The proposed AF is fully compliant with the World Bank Policy on Investment Project Financing (IPF) and the accompanying World Bank procedures for the AF.** It meets the operational eligibility criteria and requires no exception from World Bank policies. The original project has been rated Satisfactory for its implementation progress and progress toward achievement of the PDO consistently over the last 12 months. The project is in compliance with key loan covenants, including audit and financial management (FM) reporting requirements.

B. Background and Context

3. **Over the past 15 years, Azerbaijan has achieved the upper-middle-income status, driven by strong economic growth, primarily through hydrocarbon exploitation and high public spending, which increased the gross national income (GNI) per capita from US\$3,220 in 2000 to US\$21,000 in 2022.¹** However, this growth has not translated into high-productivity jobs, with most of the employment still in low-productivity sectors such as agriculture and trade services. Despite a significant reduction in poverty from 29.3 percent in 2005 to around 6.2 percent in 2020² and a near elimination of extreme poverty, recent economic slowdowns and the COVID-19 crisis have increased the number of poor and vulnerable households. 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 5.6 percent in 2022,³ but labor market outcomes are particularly challenging for women, youth, and internally displaced persons (IDPs).

4. **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 has less than secondary education), high share of agricultural employment in total employment (36 percent⁴), high informality rate, high unemployment among women (6.5 percent versus 4.8 percent among men⁵), low

¹ Source: Figures represent the GNI per capita, purchasing power parity (PPP) (current international \$) from World Development Indicators.

² Source: State Statistics Committee.

³ Source: State Statistics Committee.

⁴ Source: World Development Indicators.

⁵ World Development Indicators, 2022.



female employment (only 57.9 percent of women are employed versus 70 percent men⁶), low entrepreneurship (21 percent of individual entrepreneurs are women⁷), and skills mismatches (for example, scarcity of labor for manufacturing and services jobs) increase the burden on the Azerbaijan Public Employment Agency (APEA) and cause jobseekers and unemployed people to remain either inactive or unemployed for extended periods. Although unemployment rates are not high compared to the region, labor force participation is relatively high (67.4 percent in 2023),⁸ and gender gaps in this respect are low.⁹ However, women are more likely than men to be in vulnerable employment¹⁰ and less likely to be wage employed¹¹ as they have consistently lower educational attainment than men. This trend has become more apparent since 2010 with a larger share of women with less than secondary education and a slightly lower share of women with tertiary education. Higher levels of education (above general secondary) are associated with a lower probability of being unemployed or inactive.¹² Although earnings gaps have been decreasing in the formal sector, there is still a sizable difference between men and women, and the gap is higher for higher wage sectors.¹³ At 30 percent, the rate of young women who are not in education, employment, or training (NEET) is three times higher than that of young men (11 percent).¹⁴ The high female NEET rate is due to limited job opportunities, skill mismatches, and family responsibilities for women. The gender gap in employment demonstrates a strong intersectionality with geography, with women being about 23 percent less likely to be employed in urban areas and about 17 percent less likely in rural areas.¹⁵

5. Similarly, only 30 percent of the government's active labor market program (ALMP) beneficiaries are women as is the case for the largest ALMP, the self-employment program (SEP). 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 Government of Azerbaijan requested an AF to scale up existing

⁶ World Development Indicators, 2022 - Employment to population ratio, 15+ female and male.

⁷ UN Women. 2021. *Azerbaijan Women Entrepreneurs Factsheet*. April 2021.

⁸ World Bank. Gender Data Portal. Labor force participation rate (modeled International Labour Organization [ILO] estimate). <https://liveprod.worldbank.org/en/economies/azerbaijan>.

⁹ About 5.8 percentage points in Azerbaijan (67.4 percent female and 73.2 male labor force participation rate) compared to 14.9 percentage points in Europe and Central Asia (51.5 percent and 66.4 percent for female and male, respectively). Source: World Bank. Gender Data Portal. Labor force participation rate (modeled ILO estimate) <https://liveprod.worldbank.org/en/economies/azerbaijan>.

¹⁰ In Azerbaijan, 59.4 percent of women and 47.5 percent of men in vulnerable unemployment compared to 11.6 percent and 15.3 percent for Europe and Central Asia region, respectively. Source: Vulnerable employment (percentage of total employment) (modeled ILO estimate). World Bank. Gender Data Portal. <https://liveprod.worldbank.org/en/economies/azerbaijan>.

¹¹ Wage employment among women is 28.9 percent compared to 36.8 percent for males in Azerbaijan in 2022. Source: Azerbaijan Gender Landscape, data from World Bank Gender Data Portal. <https://documents1.worldbank.org/curated/en/099020406242230823/pdf/IDU1f7fddd79137c2140301b1e311a5d66076c46.pdf>.

¹² Republic of Azerbaijan Systematic Country Diagnostic Update, World Bank. 2022.

¹³ Source: Gardiner, Kerry, and Nato Kurshitashvili. 2020. *Lifting Legal Barriers to Women's Employment in Azerbaijan*. Washington, DC: World Bank Group. <https://documentsinternal.worldbank.org/search/33666450>.

¹⁴ The youth NEET for women and men was 30.3 percent and 10.8 percent, respectively, in 2015. Source: Ajwad, Mohamed Ihsan, and Maddalena Honorati. 2019. *Improving Employment Outcomes in Azerbaijan*. Washington, DC: World Bank Group. <https://documentsinternal.worldbank.org/search/31214172>.

¹⁵ Source: Ajwad, Mohamed Ihsan, and Maddalena Honorati. 2019. *Improving Employment Outcomes in Azerbaijan*. Washington, DC: World Bank Group. <https://documentsinternal.worldbank.org/search/31214172>.



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.

6. The original project was approved on March 5, 2020, and became effective on August 17, 2020.

The PDO was to improve vulnerable people's access to employment. Vulnerable people are defined in accordance with the Law on Employment as beneficiaries of the Targeted State Social Assistance (TSSA) Program, IDPs, refugees, women, youth, persons with disabilities, long-term unemployed people, individuals with less than two years until retirement, and former convicts. The project targeted four of these groups: the TSSA beneficiaries, IDPs, women, and youth who are either inactive or registered unemployed with the APEA. Employment refers to both self-employment and wage employment opportunities.

7. To achieve the PDO, the activities supported improvement of self-employment opportunities and institutional capacity strengthening.

This was implemented under three components: (1) Enhancing the scope and effectiveness of the Self-Employment Program (US\$95.5 million); (2) Strengthening employment services and programs (US\$2.0 million); and (3) Project Management, Monitoring, and Evaluation (US\$2.5 million).

C. Progress to Date

8. Overall, project implementation is on track with both implementation progress and progress toward achievement of the PDO being Satisfactory.

The loan disbursements reached US\$75 million in June 2024, despite having been slower than originally planned (due to contracting and delivery challenges related to the assets¹⁶ to be distributed to beneficiaries). The Government is highly committed to the project objective and co-financed it in the amount of US\$8.6 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.

9. 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 (23,611 women) have applied to participate in the program, with initial monitoring conducted for 31,290 applicants. A total of 20,526 individuals enrolled in the business training, 18,260 individuals (6,108 women) successfully completed it and 17,080 (5,750 women) had their business plans approved, and 14,869 (5,166 women) received asset packages. The trainings largely benefited vulnerable groups such as women, youth, IDPs, and TSSA recipients.¹⁷ 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-Dashkesen economic zone, with 10 winners selected from 33 applicants in December 2023. Preliminary results of the beneficiary impact assessment indicate that about

¹⁶ The program includes a list of asset packages containing essential equipment for selected businesses such as beauty parlors, mechanics, agrotourism, bakeries, restaurants, and so on, awarded to program beneficiaries who have successfully defended a business plan after having completed the business training.

¹⁷ Close to 35 percent of training beneficiaries are women.



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.

10. **Components 2 and 3 also presented 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 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, 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).

D. Rationale for the Proposed AF

11. **The Government of Azerbaijan is requesting an AF and a project restructuring to scale up the SEP and other key wage employment support measures in line with its socioeconomic strategy targets on job promotion and poverty reduction.** The government has ambitious targets for its flagship SEP and expansion and deepening of its skills training programs (vocational training and on-the-job training [OJT]). Similarly, the government intends to pilot and introduce certification for such programs. For SEP and vocational training programs, the annual target is 15,000 beneficiaries. The AF will support the government in reaching these goals through scaling up all three project components. It would provide (a) financing for the SEP to expand its coverage (Component 1), (b) additional support to SEP beneficiaries (mentoring and matching grants) and wage subsidy¹⁸ and OJT programs (Component 2) to improve sustainability of micro-businesses and create conditions for job creation, and (c) 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, vulnerable jobseekers, and the unemployed with limited options of income generation and/or employment. The additional ALMMs, OJT, and wage subsidy will build on the experiences of the small-scale measures currently being implemented by the APEA but initially will be exclusively focused on SEP beneficiary businesses/micro-entrepreneurs. 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).

II. DESCRIPTION OF ADDITIONAL FINANCING

12. **The original PDO, to improve vulnerable people's access to employment, and the project's target group will remain unchanged.** The AF will expand coverage of the project activities to increase the number of beneficiaries as well as the breadth of offered services and programs, not changing the nature

¹⁸ Wage subsidy means a program for creation of additional jobs for socially vulnerable persons.



of the project, which will not warrant a modification of the PDO. With the AF, to improve delivery of employment services and labor market monitoring, further support will also be provided to the implementing agency (the Ministry of Labor and Social Protection of the Population [MLSPP]) and other agencies (APEA, the Agency for Sustainable and Operational Social Security [DOST] centers [social work centers], and the National Observatory), which have responsibility for some activities under the project. The results are expected to have positive impacts on access to employment for vulnerable people.

13. **Changes to the key results indicators.** The project outcomes were originally measured using two PDO indicators (PDI), one of which is proposed for deletion at this AF. Three new PDIs and a sub-indicator are added to better capture the new scope of the project activities and align with the World Bank Group’s new scorecard and corporate results indicators (CRI).

Table 1. Revised Key Results Indicators

Original indicator	Revised or new indicator	Original target	Revised or new target	Remarks
Share of SEP businesses in operation 12 months after asset transfer (Percentage)	Share of SEP businesses in operation 12 months after asset receipt (Percentage)	50.00	-	The title was changed
Employment rate among vulnerable registered unemployed jobseekers, by vulnerable groups (Percentage)		40.00	-	Deleted
	Share of matching grant beneficiaries in operation (12 months after receipt of matching grant) (Percentage)	-	60.00	New
	Share of employed apprenticeship, wage subsidy and OJT beneficiaries (12 months after program) (Percentage)	-	35.00	New
	New and better jobs (CRI, Number)	-	70,000.00	New
	New and better for youth (CRI, Number)	-	14,000.00	New
	New and better for women (CRI, Number)	-	28,000.00	New

14. **The AF will require changes to the component activities, component costs, and the closing date of the project.** The AF will not change the project structure with three components. However, activities under all three components will be expanded/adjusted and new activities will be implemented. Most of the AF will be allocated to Component 1 given the high demand for self and wage employment support; the government counterpart funding will be distributed across all components and activities (see table 1 for the proposed component costs). The project closing date is proposed to be extended until December 31, 2029. The updated results chain to reflect expanded project activities, outputs, and outcomes is presented in annex 1.



Table 2. Project Components and Costs

Component Name	Cost of Parent Project (US\$, millions)		Cost of AF (US\$, millions)		Total Cost (US\$, millions)	
	IBRD	Government	IBRD	Government	IBRD	Government
1. Enhancing the scope and effectiveness of the Self-Employment Program	95.50	16.97	132.22	23.80	227.72	40.77
2. Strengthening employment services and programs	2.00	0.36	11.83	2.13	13.83	2.49
3. Project Management, Monitoring and Evaluation	2.50	0.39	5.95	0.31	8.45	0.70
Total	100.00	17.72	150.00	26.24	250.00	43.96

15. **To support the capacity for implementing expanded and new programs, the AF includes additional implementation partners and ongoing capacity-building activities and training for implementing institutions.** Similar to the existing project, the AF will be carried out under the leadership of the MLSPP through the Project Implementing Unit (PIU) established under the MLSPP, with the local offices of the APEA being the primary implementing body for the programs. Under the AF, in addition to the APEA, DOST (social work centers), operated by the MLSPP, can register individuals as jobseekers and assess their profiles to direct them to various programs, including the SEP and other ALMMs. Currently, DOST centers offer employment services such as career counseling and registration, in addition to providing social assistance and services. Considering wide outreach capacity of DOST Agency, the AF would support DOST Agency’s capacity to ensure that work-able vulnerable people served by the DOST Agency would also receive employment counseling services and would benefit from the APEA’s employment programs and job matching services. This would decrease the burden on the APEA. The National Observatory, which is currently responsible for assessing the current and future state of the labor market and identifying strategic areas of employment and their development trends, will be tasked with labor market monitoring activities under the AF on behalf of the MLSPP. Private providers and intermediaries will support the APEA on service delivery, including matching and training. The expansion of the PIU with additional staff in some regional branches of the APEA will enhance the capacity to effectively manage the project's implementation at the regional level. The AF will provide additional capacity improvement support to all implementing institutions and the PIU to ensure a successful implementation.

16. **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 SEP 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. This will support the expansion and sustainability of



selected micro-businesses. 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. The project expects to cover up to 1,300 beneficiaries of matching grants in the amount of about US\$8,500 per business (the exact amounts and program details will be provided in the updated Project Operational Manual [POM]). This experience is expected to provide insights on the feasibility of a gradual move toward cash grants for the SEP in line with similar micro-entrepreneurship program experiences from different countries (for example Türkiye, Kenya, and Uganda).¹⁹ Previously indicated 'business awards' will be folded into the 'cash matching grant' program scale-up. Therefore, there will be no separate business award competition, but instead, an expanded matching grants scheme will be financed for those successful and eligible self-employment beneficiary micro-entrepreneurs. Outreach activities under Component 1 will also be scaled up in response to increased demand for financing of economic activities in alternative occupations outside agriculture. Those activities including outreach, training, and mentorship will be tailored to address the challenges faced by women.

17. Component 1 will also finance asset packages, which will include new technological equipment that meets modern standards, as well as new packages for businesses aligned with market demand. New asset packages will include 'green' equipment and elements (for example, eco-friendly cleaning products for cleaning businesses and eco-friendly beauty products for beauty salons). Consultants involved in the implementation of Component 1 (organization of business training) in the new phase will identify packages and provide proposals and specifications that will include green technologies (about 10 percent of the total budget allocated for assets). Business and online technical trainings will include elements to raise awareness on energy-efficient business practices including water conservation, use of 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 where suitable in a sustainable manner. Occupations and business selection will also favor 'green business' models in beneficiary selection. In the SEP, preference will be given to employer beneficiaries of ALMMs which have climate adaptation/mitigation investments (about 10 percent is expected). The details will be defined in the POM.

18. 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 OJT, wage subsidies, and apprenticeship program (with an option of using private intermediaries), and vocational training development and certification fee reimbursement for selected occupations. The OJT and wage subsidy programs will be rolled out immediately at a small scale (with maximum 3,000 beneficiaries) targeting successful SEP beneficiary micro-businesses that have growth potential. Wage subsidy, OJT, and apprenticeship programs are expected to stimulate the employment of unemployed and jobseekers including women and other vulnerable populations and increase their employment opportunities in manufacturing and services, because these programs will directly support improvement of the skills of vulnerable groups. Expanding the menu of employment services will increase the opportunities for women to enter the labor market. The apprenticeship program will target successful and eligible businesses/employers with capacity to

¹⁹ Vilas J. Gobin, Paulo Santos, and Russel Toth (2017); Christopher Blattman et.al (2015).



carry out the apprenticeship program. Detailed guidelines will be included in the POM. The project will also continue to finance development of online and in-person short-term vocational training courses expanding the number and type of trainings available by occupation. In addition, the project will support the implementation and M&E capacity of the APEA as well as DOST Agency's capacity to ensure that workable vulnerable people served by them would also receive employment counseling services and would benefit from APEA-implemented employment programs and job matching services. Through DOST centers, the project would attract more women and provide targeted counseling services for women. Case management approaches will also be developed with a view to respond to gender-specific labor market barriers (for example, care responsibilities or transportation constraints). Citizen engagement activities described earlier will be designed to include consultations on gender issues related to access to the SEP and ALMMs in general. Finally, the project will establish data collection mechanisms to facilitate the monitoring of gender results and impacts, with indicators disaggregated by gender, whenever possible.

19. Scaling up additional support services for SEP beneficiaries and other ALMMs would help improve the sustainability of the businesses of the SEP beneficiaries and resilience of the population to shocks including climate shocks. The project support would stimulate the recruitment of new employees for the development and expansion of the businesses they manage and training of the workforce who can enter or re-enter the labor market, all of which enhance the outcomes of the project. Specifically, successful SEP beneficiaries will be provided with consulting services to support improved business practices, access to the market and sales, and the purchase of additional assets to promote business expansion and job creation. As a complement to the existing SEP, apprenticeship, wage subsidy scheme, and vocational training under the AF will support increased formal employment and expansion of existing businesses with skilled labor. ALMMs, which will be implemented with existing SEP beneficiaries or other firms (that is, for apprenticeship and wage subsidy programs) are expected to stimulate the employment of unemployed and vulnerable jobseekers and increase employment opportunities in selected sectors (that is, manufacturing and services). Azerbaijan is considered highly vulnerable to the adverse effects of climate change. This poses multiple threats for the overall economy. Azerbaijan's vulnerability to climate change in the agricultural sector is influenced by various factors such as water stress, changes in precipitation, and temperature. Besides, the population employed in the agricultural sector, which is already the most vulnerable segment in the country, will experience greater adverse impacts from climate change. Therefore, expanding economic opportunities outside agriculture and increasing employability of people to be able to work outside the agricultural sector through ALMMs can help households diversify their income sources, reducing their vulnerability to climate change. In addition, ALMMs can support training and job placement to connect workers to jobs in emerging green sectors.

20. The AF would also support strengthening of employment services and programs delivered through the APEA and DOST Agency. Specifically, the AF would support the implementation and M&E capacity of the APEA. Despite recent improvements in the APEA and DOST service delivery systems, there is still room for improvement of the APEA's capacity to perform its core tasks including skill assessment, counseling, and job matching. In line with the Government's digitalization vision,²⁰ and building on the existing systems, the AF will support continued digitalization of the APEA and DOST systems to increase the efficiency in service provision. A skills assessment tool to be used by jobseekers 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

²⁰ Republic of Azerbaijan: 2022–2026 Socio-economic Development Strategy.



DOST centers and VTCs as well as a Central Career Branch run by the MLSPP will also be provided. The project's support for vocational training would be expanded with the AF in line with the expansion plan of VTCs and beneficiaries of the project. In addition, in line with the government's strategy to increase the number of VTCs and increase the collaboration with the private sector and employers for vocational training delivery, the AF would support the development and piloting of a certification system on the recognition of competencies obtained through non-formal learning (vocational training and OJT) or prior learning. Public-private partnership mechanisms to conceive and implement joint skills development and certification programs with employers and private providers will be developed.

21. **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 the following:

- (a) **Development and financing of additional ALMMs.** OJT, apprenticeship, and wage subsidy programs for hiring of socially vulnerable will be developed and financed, primarily aiming to support the successful and eligible SEP 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, which will be rolled out in the second half of the AF implementation period and build on the OJT program experiences, will provide financial incentives to all interested firms to participate in a structured on-the-job and off-the-job training program to provide work experience and training opportunities to new labor market entrants and less skilled jobseekers. The jobseekers will be selected from the 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 offline and online vocational training courses for select occupations in line with international and national standards and competencies and support international accreditation of VTCs to deliver certain programs. Vocational training certification will also be financed for targeted registered unemployed in select occupations where international accreditation through VTCs will be possible.
- (c) **Development and piloting of a certification/accreditation for skills training (vocational, OJT, 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, that is, individual employers and/or industry associations and vocational training institutions to ensure its alignment with market demand and employer buy-in. Once developed and tested, the certification will be piloted in select occupations, including as part of the apprenticeship program.
- (d) **Development and rollout of a skills 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 the 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 provide a variety of services to students, new jobseekers and 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 and capacity-building support for the APEA and DOST centers.** The component will finance strengthening of administrative links between DOST centers and the APEA. It will also finance operationalization of digital tools used by the APEA including training for DOST counselors.

22. **Component 3 costs will also increase to ensure proper implementation of the enlarged programs and strengthen project M&E activities.** Project evaluation activities would include impact evaluations of OJT, apprenticeship, the wage subsidy scheme, the vocational training voucher program, and the matching grant scheme in addition to SEP evaluations. It will also continue to finance regular capacity-building support for monitoring and administration of the programs with a focus on new interventions and private service provider contracting and administration. The AF would finance the labor market information system (LMIS) strengthening. Labor market monitoring and improvement of LMIS activities are complementary to the activities for supporting the job matching process and the APEA's counseling services under Component 2.

23. **The National Observatory will be added as a sub-implementing agency responsible for implementing a series of labor monitoring activities.** The changes under this new implementation arrangement will include the following:

- (a) **Support for labor market monitoring.** A set of activities (for example, labor demand surveys and 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) links between different databases which track jobseekers, vacancies, ALMMs, unemployment benefits, TSSA benefits, and occupational demand and existing stock of skills and competencies.
- (c) **Project M&E.** The component will finance an impact evaluation of all ALMMs supported under the project in addition to the beneficiary satisfaction, process evaluation, and SEP evaluation surveys. It will also provide technical support to the APEA and the MLSPP PIU to administer performance-based private provider contracts.

24. **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 the 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, increasing the efficiency of ALMMs, increasing private sector collaboration in trainings, and developing additional demand-driven programs. Therefore, the AF would contribute toward increasing human capital potential; increasing the effectiveness of employment services; and promoting labor market participation, skill enhancement, and inclusiveness. In the State Program for the Socio-Economic Development of the Nakhchivan Autonomous Republic for 2023–2027, it is planned to implement social projects in the region. 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.

25. **Climate change.** The project has been screened for climate and natural hazards, exposure, and risks and the results show that the country is exposed to extreme temperatures, droughts, geophysical hazards, and likely increase of frequency and intensity of flooding. The AF is expected to support climate change adaptation and mitigation aspects to a greater extent than the parent project.

26. **Azerbaijan is historically vulnerable to climate hazards, with annual losses already estimated at 0.3 percent of current gross domestic product (GDP).**²¹ Almost the entire country is prone to both droughts and water scarcity, which are expected to increase in frequency and intensity due to extreme weather events. Meanwhile, its natural wealth is eroding because of soil degradation, desertification, and overgrazing, negatively affecting agriculture, while oil and gas extraction have also contributed to land degradation and contamination of water resources. Vulnerability to catastrophic events is spatially concentrated, with relatively poorer areas likely to be affected more severely.

27. **Climate co-benefits.** The ‘Azerbaijan 2030: National Priorities for Socio-Economic Development’²² and the ‘Republic of Azerbaijan Socio-Economic Strategy for 2022–2026’ (SEDS)²³ acknowledge the limits of the hydrocarbon-fueled growth model. The 2022–2026 SEDS recognizes the country’s limited progress in finding other sources of comparative advantage and lays out an ambitious program of economic diversification focused on digital technologies, human capital, and new areas of industrial exports. Its short-term (2030) objectives for emission reduction and investments in clean energy and resilience are ambitious, but implementation is not on track as policies and institutions are not yet fit for purpose. The country’s economy is heavily dependent on oil and gas, which account for one-third of GDP and 90 percent of exports. With existing oil reserves dwindling and expected to last another 25 years, comprehensive and effective decarbonization efforts will help diversify the economy and open up new drivers of growth, such as green hydrogen and agriculture. Azerbaijan commits to substantial investments toward the clean energy transition, including renewable energy, electric mobility, and energy efficiency, as well as enabling reforms such as cost-reflective energy pricing. In addition, the government increases its efforts to minimize the vulnerability of segments of the population to extreme weather and climate events that put their livelihoods at risk. The project design aims to (a) promote the adaptation and resilience of the poor

²¹ <https://www.worldbank.org/en/news/press-release/2023/11/24/investments-and-policy-reforms-towards-low-carbon-transition-and-resilience-are-in-azerbaijan-s-economic-interest-says-w#:~:text=Although%20Azerbaijan%20is%20a%20signatory,by%202050%20from%201990%20levels>

²² President of the Republic of Azerbaijan Decree 2021 <https://president.az/en/articles/view/50474>.

²³ Government of Azerbaijan. 2022a. ‘Republic of Azerbaijan Socio-Economic Strategy for 2022-2026.’ approved on July 21, 2022. https://static.president.az/upload/Files/2022/07/22/5478ed13955fb35f0715325d7f76a8ea_3699216.pdf.



and (b) contribute to mitigation through the adoption of energy-efficient assets. This project will support poor households through self- and wage employment measures and promote the diversification of income sources enhancing the resilience of those who may face impacts from future shocks, including climate risks. Activities on promotion of self-employment under Component 1 will implement adaptation measures including capacity building, training, and awareness raising on environmentally sound and green businesses and green business practices for target beneficiaries. The project will also include support for diversification out of climate-sensitive livelihoods. These features, combined with other social assistance interventions, might contribute to reducing climate change vulnerability and building resilience of vulnerable people.

28. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation.** It is consistent with Azerbaijan's Nationally Determined Contribution (NDC) submitted to the United Nations Framework on Climate Change (UNFCCC) in October 2013, which commits to a 40 percent reduction in emissions by 2060 compared to 1990, conditional to international support.

29. **Assessment and reduction of mitigation risks.** The activities financed by this operation are considered universally aligned under economic services. This operation will not finance public works or the construction of infrastructure/buildings.

30. **Assessment and reduction of adaptation risks.** Azerbaijan is under climatic threats of river and urban flooding, landslides, wildfires, extreme heat, and droughts. Due to the nature of activities financed, these hazards do not hinder the achievement of the PDO.

III. KEY RISKS

31. **The overall residual risk rating for the project is Low for the reasons explained below.**

32. **The risk classifications for the proposed project in Azerbaijan are as follows:** Political and Governance risks are Low, justified by the continuity of economic and social development policies and programs after recent elections and a strong government commitment to jobs and social welfare. Macroeconomic risk is also Low despite recent economic deceleration mitigated by projected growth and fiscal surpluses. Sector Strategies and Policies risk is Low, with ongoing policy dialogue and technical assistance to support employment measures. Technical Design of Project risk is Low, reflecting strong Government ownership and positive program outcomes from pilot implementations. Institutional Capacity for Implementation and Sustainability-related risks are Low, based on the MLSPP's experience with IBRD loans and successful past collaboration. Stakeholder-related risks are Low, with a comprehensive stakeholder engagement process in place to manage potential issues. Fiduciary risk is Moderate, with a full FM and procurement assessment conducted and hands-on support from the World Bank fiduciary specialists to mitigate any risk that might arise due to the high volume of transactions. The overall Environmental and Social risk is Moderate, with relevant Environmental and Social Standards (ESS) screened and plans to update the Environmental and Social Management Framework (ESMF).



IV. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

33. **The literature provides evidence that entrepreneurship and employment support programs and services have the potential for improving the labor market outcomes among groups of vulnerable people.** Existing evidence from Organization for Economic Co-operation and Development (OECD) and EU member states suggests that well-designed activation programs can have a positive impact on employment outcomes for program participants, including those who are recipients of income support. The evidence also indicates that activation and employment support programs tend to produce modest positive results in a cost-effective manner. The effectiveness of such programs tends to be hindered by high levels of informality, rural and immobile target populations, and low labor demand due to macroeconomic conditions. Effective employment promotion programs are generally aligned with the requirements of the authorizing environment, including domestic policy challenges, employment opportunities, and institutional capacity; solid understanding of the needs and requirements of current and prospective clients of activation interventions; and choices of appropriate incentives along with policy instruments. The inclusion of the National Observatory in the project promotes the alignment of the activities with the needs of the labor market.

34. **The proposed project is, therefore, expected to yield measurable benefits both directly for project beneficiaries and for the future efficiency of labor market measures.** The project is expected to increase the share of the TSSA beneficiaries and other vulnerable groups either in self-employment or in employment, providing pathways to productive self-employment activities and, in the long run, although beyond the scope of this project, contribute to improved living standards overall. Evidence from the previous phase of the activity demonstrates the success of the combination of the asset package and the business training activities. Additionally, the piloting of new alternatives of ALMMs under Component 2, associated with rigorous M&E will allow the government to test different approaches and select the best based on beneficiary characteristics, increasing their welfare in the future.

35. **The costs associated with the improvements of employment services and programs are expected to be offset by sustainable impacts.** The SEP implementation costs are currently estimated to be approximately AZN 8,315 for beneficiaries operating in the production and services sectors. The activities carried out under this project are expected to increase the costs of SEP implementation due to the additional complementary activities to strengthen program effectiveness. While the unit costs will be higher, the net present value (NPV) of impacts in terms of longer-term income-generating activities and sustainable income flows is expected to exceed the costs. Under a 10-year benefit accrual scenario, Component 1 of the project would lead to an internal rate of return (IRR) of 45 percent (estimated net benefits of AZN 3,399 per beneficiary). Under a 15-year benefit accrual scenario, the World Bank intervention will yield an IRR of 46 percent (or AZN 3,361 net benefits per beneficiary) versus the MLSPP baseline of 31 percent, which is the equivalent of an additional AZN 150 million in net benefits (over the MLSPP program). Annex 2 provides a detailed cost-benefit analysis of Component 1.

36. **Component 2 is also expected to yield positive returns, yet the dimensions are harder to quantify.** Wage subsidies and OJT components are expected to facilitate the access to the formal labor market, increasing the chances of workers to be employed after the program, each with an IRR of close to 16 percent. Investing in labor market research and the capacity of the APEA has the potential to



improve the efficiency of general government spending in labor market policies by introducing tools to monitor and increase the efficacy of these policies. In turn, more efficient policies are expected to lead to higher job placements and eventually lower unemployment periods for beneficiaries, with a resulting positive impact on household consumption.

B. Technical

37. **Entrepreneurship and employment support programs and services are key instruments for improving the labor market outcomes among groups of vulnerable people.**²⁴ Programs supporting self-employment and entrepreneurship were shown to boost the income of the poor and vulnerable in Azerbaijan, for whom self-employment can be a key source of income. Such programs help address lack of labor demand and, more specifically, financial and nonfinancial constraints. The effectiveness of employment promotion programs was enhanced by the provision of production assets and the inclusion of training and mentoring. Now, the AF aims at further reducing the barriers to the success of the business developed by beneficiaries through the provision of cash flow via the matching grants and the opportunity to hire and train employees via the support to OJT. This would create the employer mindset for self-employed with business with the potential to expand, potentially increasing their sustainability. Furthermore, the inclusion of the National Observatory in the project promotes the alignment of the activities with the needs from the labor market and strengthening counterpart's capacity.

38. **Self-employment might not be the best alternative for everyone; therefore, the project includes, in the second component, measures that promote wage employment for vulnerable jobseekers and unemployed.** These include wage subsidies, OJT, apprenticeship opportunities, and skills certifications, providing a flexible array of programs and services to address specific needs of beneficiaries. These programs will be delivered in an integrated fashion by the APEA, VTCs, and private providers/intermediaries and developed in partnership with the private sector (employers), responding as well to the labor market needs.

39. **The target beneficiaries for the activities under the AF are among the most vulnerable in Azerbaijan and would potentially benefit more from them.** Women, people with disabilities, IDPs, war veterans, social assistance beneficiaries, and youth are among the target population of the activities supported by the project. On the one hand, women and people with disabilities could particularly benefit from opportunities for self-employment activities, which intrinsically offer flexible working arrangements. On the other hand, other activities that promote wage employment offer the chance to break barriers to entering the labor market such as lack of experience, lack of specific skills, or being away for a long time from the labor market, which can particularly benefit youth without work experience. Overall, these measures also offer an opportunity to the target population to be engaged in non-agricultural activities, potentially leading to higher incomes and increased protection from climate-related and other shocks.

C. Financial Management

40. **The FM performance of the parent project is Satisfactory.** The FM arrangements, established by the project, including budgeting and planning, accounting and financial reporting, flow of funds, internal

²⁴McKenzie, David, Christopher Woodruff, Kjetil Bjorvatn, Miriam Bruhn, Jing Cai, Juanita Gonzalez- Uribe, Simon Quinn, Tetsushi Sonobe, and Martin Valdivia. 2023. "Training Entrepreneurs" *VoxDevLit* 1 (3).



controls, and external audits will remain the same—they have been reviewed regularly during implementation of the parent project (last visit conducted in December 2023) and found to be adequate and acceptable to the World Bank. No major FM issues were raised in the project audit reports and Management Letters submitted to date. There are no outstanding audits.

41. **The PIU has adequate capacity to conduct all FM operations.** Considering expansion of the SEP and introduction of new ALMMs, it is recommended to strengthen the PIU FM team by an additional accountant. The World Bank will continue strengthening the PIU’s capacity through daily support and tailored training sessions.

D. Procurement

42. **Procurement under the AF will be carried out in line with the original project, however, in accordance with the World Bank’s latest ‘Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services’, dated September 2023 (Fifth Edition), as well as the latest available procurement standards.** The borrower will update the Project Procurement Strategy for Development (PPSD) to reflect the activities envisaged within the new phase. The initial Procurement Plan for the first 18 months containing the list of activities to be procured with indication of procurement approaches, procurement categories, and other details will be prepared based on the PPSD. The PIU will continue using the Systematic Tracking of Exchanges in Procurement (STEP) platform to capture procurement transactions via the same accounts. The updated PPSD will have to be uploaded in STEP upon submission of the first draft Procurement Plan for the World Bank’s no-objection. The procurement arrangements in place have been reviewed during the preparation of the AF (date assessed) and found acceptable to the World Bank.

43. **Capacity building.** The PIU has adequate procurement capacity to conduct all procurements planned under the AF. The PIU Procurement Manager has excellent knowledge of World Bank Procurement Regulations achieved through the project’s actual procurement practice as well as participation in the World Bank-organized procurement training sessions. The World Bank will continue strengthening the PIU’s capacity through daily support and tailored training sessions.

44. **Contract management.** The PIU will record the contract management information through a dedicated Contract Management Module (CMM) in STEP. The PIU procurement staff has already accumulated relevant experience in using the CMM and applied good management of contracts under the parent project. Lessons learned from the original project can help further strengthen the contract planning/implementation skills.

E. Legal Operational Policies

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



F. Environmental and Social

45. **The environmental risk is classified as Moderate, the social risk as Low, and the project's E&S performance has been Satisfactory.** Six of the ten ESS have been screened as relevant. Overall, the project, including the AF, aims to improve employment opportunities among vulnerable groups of jobseekers through provision of equipment and capacity building toward self-employment. Potential social risks relate mainly to exclusion and inequity in the benefits as well as labor and working conditions and community health and safety. The capacity and activities for outreach, engagement, sharing of information, and grievance management have been significantly strengthened in the implementation of the project to date, as well as systems to capture the beneficiary feedback. The Stakeholder Engagement Plan, Labor Management Procedures, and Environmental and Social Commitment Plan have been updated and disclosed in country.

46. **Citizen engagement.** The AF will continue mainstreaming citizen-oriented design and accountability measures in the different project activities. Citizen engagement activities will include (a) periodical beneficiary satisfaction surveys, (b) a dedicated online consultation portal for continuous collection of beneficiary feedback, and (c) a participatory mechanism through local consultations to involve central and local stakeholders to provide a consultative platform related to economic sectors priorities for SEP-financed businesses and ALMMs to be introduced and ensure local citizens' engagement. Additionally, the project will continue to operate a robust and accessible grievance redress mechanism (GRM), which will solicit inputs, complaints, and feedback from all project stakeholders and beneficiaries.

47. Regular beneficiary surveys will be introduced to measure beneficiary satisfaction with the SEP program, the cash-based matching grant scheme, and other ALMMs and assess whether and how they meet citizens' needs. A corresponding beneficiary feedback indicator in the Results Framework will measure overall beneficiary satisfaction with the programs based on the surveys. As part of Components 1 and 2, various consultative meetings and communication and outreach activities that engage beneficiaries and solicit their feedback on project activities will keep being conducted (including roundtables and participatory workshops with beneficiaries). Separate indicators will measure the number of rayons with annual local consultations on planning or implementation of APEA activities, the number of communication and outreach activities targeting women, and upgrading of the management information system (MIS) to include GRM.

V. WORLD BANK GRIEVANCE REDRESS

48. **Grievance redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides



communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's AM, please visit <https://accountability.worldbank.org>.

VI SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓

VII DETAILED CHANGE(S)**COMPONENTS**

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
1. Enhancing the scope and effectiveness of the Self-Employment Program (SEP)	95.50	Revised	1. Enhancing the scope and effectiveness of the Self-Employment	227.72



			Program	
2. Strengthening employment services and programs	2.00	Revised	2. Strengthening employment services and programs	13.83
3. Project Management, Monitoring and Evaluation	2.50	Revised	3. Project Management, Monitoring and Evaluation	8.45
TOTAL	100.00			250.00

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-90440	Effective	31-Dec-2025	31-Dec-2025	31-Dec-2029	30-Apr-2030

Expected Disbursements (in US\$)

Fiscal Year	Annual	Cumulative
2020	0.00	0.00
2021	902,943.82	902,943.82
2022	18,916,497.75	19,819,441.57
2023	20,939,634.99	40,759,076.56
2024	31,749,571.66	72,508,648.22
2025	29,089,743.83	101,598,392.05
2026	19,372,876.61	120,971,268.66
2027	35,841,077.11	156,812,345.77
2028	36,179,503.91	192,991,849.68
2029	35,985,530.82	228,977,380.50
2030	21,022,619.50	250,000,000.00

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	● Low	● Low



Macroeconomic	● Low	● Low
Sector Strategies and Policies	● Low	● Low
Technical Design of Project or Program	● Low	● Low
Institutional Capacity for Implementation and Sustainability	● Low	● Low
Fiduciary	● Moderate	● Moderate
Environment and Social	● Moderate	● Moderate
Stakeholders	● Low	● Low
Other		● Low
Overall	● Low	● Low

LEGAL COVENANTS – Additional Financing for Employment Support Project (P181649)

Sections and Description

No information available

Conditions



VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Azerbaijan

Additional Financing for Employment Support Project

Project Development Objective(s)

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

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	End Target
Improved vulnerable people's access to employment (Action: This Objective has been Revised)			
Share of SEP businesses in operation 12 months after asset receipt (Percentage)		0.00	50.00
<i>Action: This indicator has been Revised</i>	Rationale: <i>The title is changed to substitute "after asset transfer" with "after transfer receipt", the monitoring period is changed to 12 instead of 24 months to be able to measure the indicator for several cohorts, and the mention of "by vulnerable group" was removed for clarity.</i> <i>The End target date is moved to Dec 31, 2029.</i>		
Employment rate among vulnerable registered unemployed jobseekers, by vulnerable groups (Percentage)		35.00	40.00
<i>Action: This indicator has been Marked for Deletion</i>	Rationale: <i>The indicator "Employment rate among registered unemployed, by vulnerable groups" is removed given it is impacted by several factors beyond the scope of the project.</i>		



Indicator Name	PBC	Baseline	End Target
Share of matching grant beneficiaries in operation (12 months after receipt of matching grant) (Percentage)		0.00	60.00
Action: This indicator is New	Rationale: Tracking results of additional ALMMs		
Share of employed apprenticeship, wage subsidy and OJT beneficiaries (12 months after program) (Percentage)		0.00	35.00
Action: This indicator is New	Rationale: Tracking results of additional ALMMs		
New or better jobs (Number)		0.00	70,000.00
Action: This indicator is New	Rationale: Number of people engaged in self-employment activities and wage employment measures under the Project (corporate scorecard indicator)		
New of better jobs for women (Number)		0.00	28,000.00
Action: This indicator is New			
New of better jobs for youth (Number)		0.00	14,000.00
Action: This indicator is New			
Increased employment rate among registered unemployed, by vulnerable groups (Action: This Objective has been Marked for Deletion)			



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Enhancing the scope and effectiveness of the Self-Employment Program (Action: This Component has been Revised)			
Number of SEP beneficiaries supported by the project (Number)		0.00	70,000.00
Action: This indicator has been Revised	Rationale: The target is increased from 22,000 to 70,000; the End target date is moved to Dec 31, 2029.		
Number of female SEP beneficiaries supported by the project (Number)		0.00	28,000.00
Action: This indicator is New	Rationale: To reflect the achievements of the project towards gender equality.		
Share of female SEP beneficiaries (Percentage)		24.00	40.00
Action: This indicator has been Revised	Rationale: The End target date is moved to Dec 31, 2029.		
Number of successful SEP applicants completing the business training, by gender (Number)		0.00	60,000.00
Action: This indicator has been Revised	Rationale: The End Target is increased from 27,000 to 60,000 and date moved to Dec 31, 2029.		
Number of successful SEP applicants receiving assets, by gender (Number)		0.00	52,000.00
Action: This indicator has been Revised	Rationale: The title is changed to add "..., by gender". The End Target is increased from 22,000 to 52,000 and date moved to Dec 31, 2029.		



Indicator Name	PBC	Baseline	End Target
Number of matching grant program beneficiaries (Number)		0.00	1,300.00
Action: This indicator is New			
Share of SEP beneficiaries receiving follow up visits (Percentage)		0.00	100.00
Action: This indicator has been Revised			
Rationale: The End target date is moved to Dec 31, 2029.			
Number of SEP beneficiaries receiving mentoring services (Number)		0.00	20,800.00
Action: This indicator has been Revised			
Rationale: The End Target is increased from 8,800 to 20,800 and date moved to Dec 31, 2029.			
TSSA transition strategy is finalized and adopted (Yes/No)		No	Yes
Action: This indicator has been Marked for Deletion			
A mobile application for SEP beneficiaries is developed and operational (Yes/No)		No	Yes
Action: This indicator has been Marked for Deletion			
Number of rayons where the project operates (Number)		0.00	77.00
Action: This indicator has been Marked for Deletion			
Rationale: Project already operates in all rayons, therefore the indicator is no longer relevant.			



Indicator Name	PBC	Baseline	End Target
Number of rayons with semi-annual local consultations on planning or implementation of SEP activities (Number)		0.00	52.00
<i>Action: This indicator has been Marked for Deletion</i>			
Share of SEP businesses in operation 12 months after asset transfer, by vulnerable group (Percentage)		0.00	70.00
<i>Action: This indicator has been Marked for Deletion</i>		Rationale: <i>Indicator moved to PDO level indicator</i>	
Strengthening employment services and programs			
Communication and outreach strategy adopted (Yes/No)		No	Yes
<i>Action: This indicator has been Marked for Deletion</i>			
Number of communication and dissemination activities conducted per rayon (Number)		0.00	10.00
<i>Action: This indicator has been Marked for Deletion</i>			
Number of SES staff trained on profiling tools (Number)		0.00	165.00
<i>Action: This indicator has been Marked for Deletion</i>			
Number of SES staff trained on case management tools (Number)		0.00	100.00
<i>Action: This indicator has been Marked for Deletion</i>			
Share of newly registered unemployed and jobseekers with a land share with an individual action plan developed (Percentage)		0.00	100.00



Indicator Name	PBC	Baseline	End Target
<i>Action: This indicator has been Revised</i>		Rationale: The title is changed from "Number of individual action plans developed for newly registered jobseekers as risk of long-term unemployment (Number)" to "Share of newly registered unemployed and jobseekers with a land share with an individual action plan developed". The End Target is changed from 3,200 to 100 percent and the date extended by Dec 31, 2029.	
Number of labor market studies conducted (Number)		0.00	6.00
<i>Action: This indicator has been Revised</i>		Rationale: The title is changed from "Labor skills demand assessment is completed (Yes/No)" to "Number of labor market studies conducted (Number)". The baseline is 0 in Feb 2020; actual number is 1 in Dec 2023; and end target is 31 in Dec 2029.	
Share of APEA job counselors receiving gender sensitivity training during the program (Percentage)		0.00	100.00
<i>Action: This indicator has been Revised</i>		Rationale: "SES" is changed to "APEA" in the title. End Target date is extended to Dec 31, 2029. The indicator is gender tagged.	
VTC strategy is adopted and operational (Yes/No)		No	Yes
<i>Action: This indicator has been Revised</i>		Rationale: The indicator "VTC strategy is adopted and operational/IT investments made in TVCs (Yes/No)" is split into two - this one "VTC strategy is adopted and operational (Yes?No)" and a newly added "IT investments made in VTCs (Yes?No)".	
Newly registered unemployed profiled (Number)		0.00	21,000.00
<i>Action: This indicator has been Marked for Deletion</i>			
Registered jobseekers placed in jobs thanks to SES intermediation services (Number)		75,000.00	85,000.00



Indicator Name	PBC	Baseline	End Target
<i>Action: This indicator has been Marked for Deletion</i>			
Number of communication and outreach activities per rayon targeting women (Number)		0.00	15.00
<i>Action: This indicator has been Marked for Deletion</i>	Rationale: <i>This indicator is deleted. A new indicator tracking the number of communication and outreach activities targeting women is added under Component 3.</i>		
Jobseeker profiling system is operational and used by SES counselors (Yes/No)		No	Yes
<i>Action: This indicator has been Marked for Deletion</i>			
Number of newly registered jobseekers with SES (Number)		10,000.00	20,000.00
<i>Action: This indicator has been Marked for Deletion</i>			
Number of apprenticeship program beneficiaries (Number)		0.00	1,500.00
<i>Action: This indicator is New</i>			
Number of wage subsidy program beneficiaries (Number)		0.00	1,050.00
<i>Action: This indicator is New</i>			
Number of vocational training program beneficiaries who are certified (Number)		0.00	1,300.00
<i>Action: This indicator is New</i>			
Vocational training certification mechanism is developed and piloted (Yes/No)		No	Yes



Indicator Name	PBC	Baseline	End Target
<i>Action: This indicator is New</i>			
IT investments made in VTCs (Yes/No)		No	Yes
<i>Action: This indicator is New</i>			
Number of OJT beneficiaries (Number)		0.00	550.00
<i>Action: This indicator is New</i>			
Percentage of female ALMP completers who are employed or self-employed 12 months after ALMP completion (Percentage)		0.00	30.00
<i>Action: This indicator is New</i>			
Project management, monitoring and evaluation			
Number of project monitoring reports produced and available online (Number)		0.00	8.00
<i>Action: This indicator has been Revised</i>	Rationale: <i>"Number of monitoring reports..." is changed for "Number of project monitoring reports..." in the title. The End Target date is extended until Dec 31, 2029.</i>		
Beneficiaries satisfaction with the programs (Percentage)		0.00	90.00
<i>Action: This indicator has been Revised</i>	Rationale: <i>The title is changes from "Beneficiaries satisfaction with the program" to "Beneficiaries satisfaction with the programs" to reflect both self and wage employment programs. The End Target Date is extended to Dec 31, 2029.</i>		
APEA MIS upgraded to include grievance redress mechanism (Yes/No)		No	Yes



Indicator Name	PBC	Baseline	End Target
<i>Action: This indicator has been Revised</i>	Rationale: <i>The title is changed from "SES MIS upgraded to include skills profiling tool and grievance redress mechanism" to "APEA MIS upgraded to include grievance redress mechanism".</i>		
LMIS operationalized (Yes/No)		No	Yes
<i>Action: This indicator is New</i>			
Number of trainings delivered to APEA and DOST (Number)		0.00	10.00
<i>Action: This indicator is New</i>			
Communication and outreach strategy adopted (Yes/No)		No	Yes
<i>Action: This indicator is New</i>	Rationale: <i>Moved from Component 2</i>		
Number of communication and outreach activities targeting women (Number)		0.00	100.00
<i>Action: This indicator is New</i>	Rationale: <i>The indicator is moved from Component 2.</i> <i>The title is changed from "Number of communication and outreach activities per rayon targeting women" to "Number of communication and outreach activities targeting women" to track cumulative results (primarily in low participating regions). The End Target is changed from 15 by Dec 31, 2025 to 100 by Dec 31, 2029. The indicator is gender and CE tagged.</i>		



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Share of SEP businesses in operation 12 months after asset receipt		Semiannual	PIU	MLSPP monitoring system	MLSPP
Employment rate among vulnerable registered unemployed jobseekers, by vulnerable groups	<p>Calculated as: (number of registered jobseekers who are placed in jobs or SEP) / (overall number of registered jobseekers with SEA), overall and broken down by vulnerable group (women, youth, IDP, TSSA beneficiaries).</p> <p>Number of registered jobseekers who are placed in jobs for the first half of 2023: 14,899 unemployed (of them 9,459 vulnerable) were placed in job or SEP. Of them, 10,017 were placed in jobs (including 6,875 of vulnerable groups: women – 4,060, youth – 2,128, IDP - 687) and 4,882 were placed in SEP (including 2,584 of vulnerable groups: women – 1,367, youth – 757, IDP -</p>	every 6 months	MLSPP/SES Jobseekers: women 40%, youth 33%, IDPs 12%, TSSA 4%	MLSPP	MLSPP



	<p>460). The number of registered unemployed for the end of June, 2023 is 247,430. Of them 120,892 of vulnerable groups (youth – 70,194, disabled – 18,095, women - 32.603), according to data from SEA.</p> <p>The number of registered unemployed from vulnerable groups is used both in the denominator and the numerator of the calculations. There is no statistical information concerning TSSA beneficiaries.</p> <p>Those who are placed in SEP are beneficiaries who have received assets.</p> <p>Reported every six months.</p>				
Share of matching grant beneficiaries in operation (12 months after receipt of matching grant)		Semiannual	MLSPP	Project reports	MLSPP/PIU
Share of employed apprenticeship, wage subsidy and OJT beneficiaries (12 months after program)		Semiannual	MLSPP	Project reports	MLSPP/PIU



New or better jobs		Semiannual	PIU	MLSP monitoring system	MLSP
New of better jobs for women		Semiannual	PIU	MLSP monitoring system	MLSP
New of better jobs for youth		Semiannual	PIU	MLSP monitoring system	MLSP

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of SEP beneficiaries supported by the project		Semiannual	Project reports	MLSP administrative data on the program	MLSP
Number of female SEP beneficiaries supported by the project		Semiannual	MLSP	MLSP	MLSP
Share of female SEP beneficiaries		Semiannual	MLSP	MLSP	MLSP
Number of successful SEP applicants completing the business training, by gender		Semiannual	MLSP	regular reporting from the system	MLSP
Number of successful SEP applicants receiving assets, by gender		Semiannual	MLSP /system		MLSP
Number of matching grant program beneficiaries		Semiannual	MLSP	Project reports	MLSP/PIU



Share of SEP beneficiaries receiving follow up visits	<p>Calculated as: (Number of SEP beneficiaries receiving at least one follow up visit) / (Number of total SEP beneficiaries).</p> <p>By end Dec 2023, 6,498 follow up visits were made to a total of 10,390 beneficiaries who received assets. This number includes the beneficiaries who have been provided with assets and received at least one follow-up visit.</p> <p>Sudden drop in the percentage for Q4 2023 was due to ongoing distribution of assets.</p>	Semiannua l	SEPIS integrated system	Administrative data of the program	MLSPP
Number of SEP beneficiaries receiving mentoring services		Semiannua l	MLSPP	MLSPP	MLSPP
TSSA transition strategy is finalized and adopted					
A mobile application for SEP beneficiaries is developed and operational					



<p>Number of rayons where the project operates</p>	<p>Calculated as Number of rayons the project operates in.</p> <p>The project covers the whole country.</p> <p>The decision has been taken to involve the Nakhchivan Autonomous Republic in the project, as a total of 1,000 beneficiaries are expected to receive assets until Dec 2025.</p>	<p>MLSPP</p>	<p>MLSPP</p>		<p>MLSPP</p>
<p>Number of rayons with semi-annual local consultations on planning or implementation of SEP activities</p>	<p>Before public hearings, PIU staff holds local consultations with SEA officials on implementation of SEP activities.</p> <p>Totally, 43 consultations were organized (including 37 consultations until Sept 30, 2023 and 6 consultations from October 1 to Dec 31, 2023).</p>			<p>PIU</p>	<p>MLSPP</p>
<p>Share of SEP businesses in operation 12 months after asset transfer, by vulnerable</p>	<p>76% of beneficiaries are reported as being in</p>			<p>Project reports</p>	



group	<p>operation after 12 months of assets transfer.</p> <p>Asset transfer means transfer of assets to a beneficiary’s ownership after one year of operation (the number of assets delivered – the number of sold, the number of uninstalled, etc.).</p>				
Communication and outreach strategy adopted		every year	MLSP	MLSP	MLSP
Number of communication and dissemination activities conducted per rayon	<p>Calculated as: Number of rayons where communication and outreach activities take place at least once a year.</p> <p>Totally, 51 public hearings were organized, including 5 from Oct 1 to Dec 31, 2023.</p> <p>This number includes the communication and dissemination activities undertaken by TOR-2 Consultant.</p>	6months	MLSP	MLSP	MLSP



Number of SES staff trained on profiling tools					
Number of SES staff trained on case management tools		every 6 months	MLSPP/SES		MLSPP
Share of newly registered unemployed and jobseekers with a land share with an individual action plan developed	In the preparation of individual action plans, the profiling tool is used as a decision-support mechanism	Semiannua 	MLSPP/APEA	MLSPP	MLSPP/PIU
Number of labor market studies conducted		Semiannua 	MLSPP/SEA	Ministry data and survey data	MLSPP
Share of APEA job counselors receiving gender sensitivity training during the program		Semiannua 	MLSPP	MLSPP	MLSPP
VTC strategy is adopted and operational		Semiannua 	MLSPP	MLSPP	MLSPP
Newly registered unemployed profiled	Calculated as: number of newly registered jobseekers. Only 3-month statistics is counted and numbers are	MLSPP	MLSPP	MLSPP	MLSPP



	<p>not added up, as we talk about newly registered unemployed people for a particular quarter.</p> <p>(This indicator could be changed in future into a ratio to show dynamics concerning newly registered unemployed vs. newly registered unemployed profiled. The name of indicator "Newly registered unemployed profiled" could proposed to be changed for "Share of newly registered unemployed profiled every 6 months" during next restructuring).</p>				
Registered jobseekers placed in jobs thanks to SES intermediation services	<p>The value is for number of placed in jobs in the last six months and it is not cumulative.</p> <p>According to information provided by SEA, 97,010 registered jobseekers placed in jobs</p>	every six months	SES/DOST		SES and DOST



	thanks to SEA intermediation service as of Dec 31, 2023. The cumulative (not reported) number is 335,584people.				
Number of communication and outreach activities per rayon targeting women	<p>Number of communication and outreach activities per rayon targeting women</p> <p>Since communication and outreach activities target all beneficiaries, no distinction is made between male and female population. However, the focus is on women via communication and outreach activities within the project.</p> <p>Totally, 54 public hearings were organized, including 5 in Q4-CY23.</p>			Project reports	
Jobseeker profiling system is operational and used by SES counselors	<p>Jobseeker profiling system operational and used by SES counselors</p> <p>It has become operational in August 2022.</p>			MLSPP/APEA	



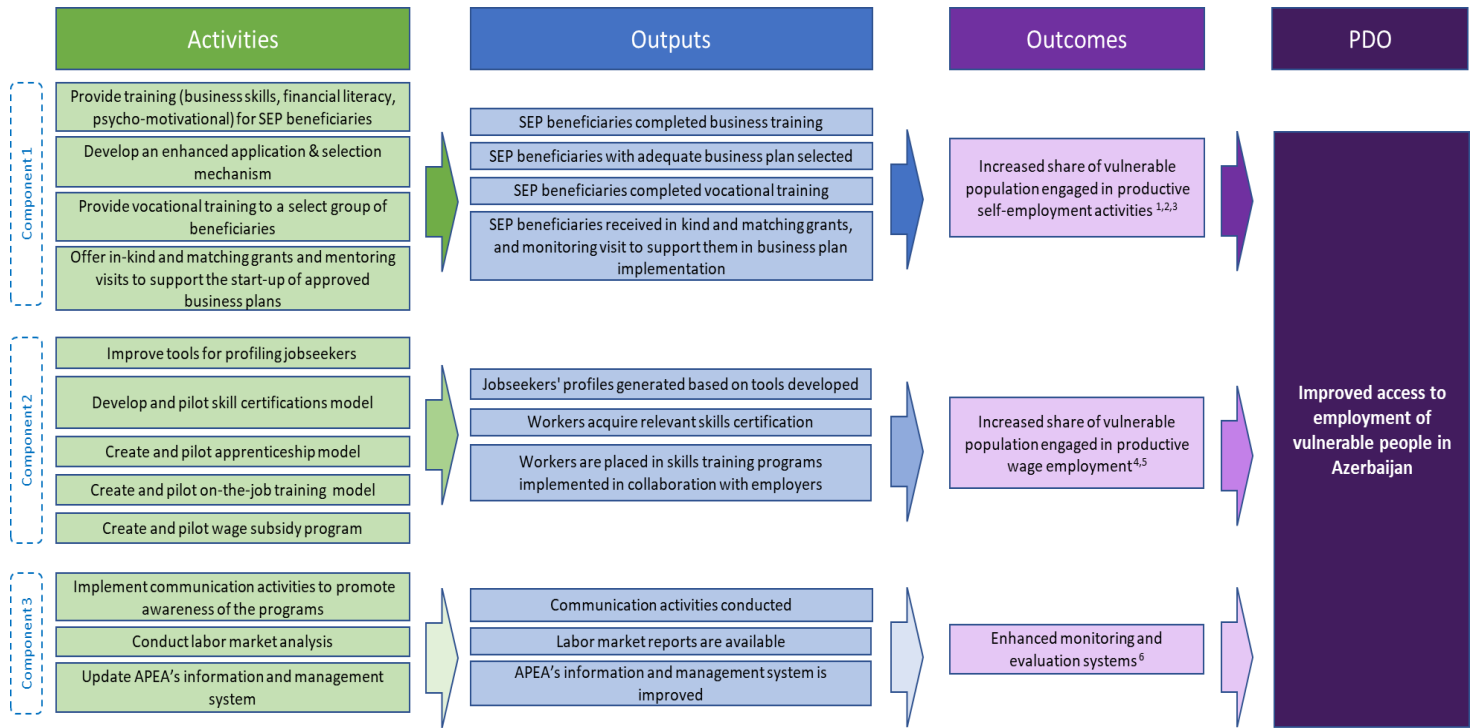
Number of newly registered jobseekers with SES	This indicator is not cumulative; the value reflects number of newly registered in the 6 month interval (January-June). (The indicator will be proposed to be removed during next restructuring since substantially duplicates the indicator "Newly registered unemployed profiled")				
Number of apprenticeship program beneficiaries		Semiannua 	MLSPP	Project reports	MLSPP/PIU
Number of wage subsidy program beneficiaries		Semiannua 	MLSPP	MLSPP	MLSPP
Number of vocational training program beneficiaries who are certified		Semiannua 	MLSPP	Progress Reports	MLSPP/PIU
Vocational training certification mechanism is developed and piloted		Semiannua 	MLSPP	MLSPP	MLSPP
IT investments made in VTCs		Semiannua 	MLSPP	MLSPP	MLSPP
Number of OJT beneficiaries		Semiannua 	MLSPP	MLSPP	MLSPP



Percentage of female ALMP completers who are employed or self-employed 12 months after ALMP completion		Semiannua 	MLSPP	MLSPP	MLSPP
Number of project monitoring reports produced and available online		Annual	MLSPP	MLSPP	MLSPP
Beneficiaries satisfaction with the programs		Annual	MLSPP	MLSPP	MLSPP
APEA MIS upgraded to include grievance redress mechanism					
LMIS operationalized		Semiannua 	MLSPP	MLSPP	MLSPP
Number of trainings delivered to APEA and DOST		Semiannua 	MLSPP	MLSPP	MLSPP
Communication and outreach strategy adopted		Semiannua 	MLSPP	MLSPP	MLSPP
Number of communication and outreach activities targeting women		Semiannua 	MLSPP	MLSPP	MLSPP



Annex 1. Results Chain



Critical assumptions

1. Training, mentoring received, and assets are adequate for business
2. Assets are available and delivered to beneficiaries at a timely manner
3. There is demand for the goods and services offered by beneficiaries' businesses
4. Employers are interested in providing training opportunities
5. There is demand for the skills acquired or certified
6. Improved MIS are used into regular government activities



Annex 2. Economic Analysis

- 1. Activation and employment support programs and services are key instruments for improving employment outcomes among groups of vulnerable people.** Programs supporting self-employment and entrepreneurship are important policy instruments to boost the income of the poor and vulnerable, for whom self-employment can be a key source of income. Such programs help address labor market constraints related to a lack of labor demand and, more specifically, addressing financial and nonfinancial²⁵ constraints. Existing evidence from OECD and EU member states suggests that well-designed activation programs can have a positive impact on employment outcomes for program participants, including those who are recipients of public income support. The evidence also indicates that activation and employment support programs tend to produce modest positive results in a cost-effective manner. The effectiveness of such programs tends to be hindered by high levels of informality, rural and immobile target populations, and low labor demand due to macroeconomic conditions. Effective employment promotion programs are generally aligned with the requirements of the authorizing environment, including domestic policy challenges, opportunities, and institutional capacity; solid understanding of the needs and requirements of current and prospective clients of activation interventions; and choices of appropriate incentives along with policy instruments.
- 2. The proposed project is expected to yield substantial and quantifiable benefits.** The project is expected to increase the share of TSSA beneficiaries and other vulnerable groups either in self-employment or in wage employment, providing pathways to productive (self-) employment activities through the SEP and expanding the access to wage employment opportunities mainly through improved employment services through the SES targeted to vulnerable jobseekers. The project is further expected to increase the number of operational businesses, directly contributing to micro, small, and medium enterprises growth in the country.
- 3. Annex 2 presents the economic and financial analysis for the main component supported by the project (Component 1: Enhancing the scope and effectiveness of the self-employment program).** The analysis is based on administrative data on the SEP shared by the Government of Azerbaijan. Assumptions are made based on the results observed from previous implementation of the activities under this project and on the existing international evidence on entrepreneurship programs.
- 4. The economic analysis focuses on Component 1 of the project** as this component comprises 87 percent of project funds and implements interventions which are more strictly measurable than the activities under Components 2 and 3. Nonetheless, Components 2 and 3 are also expected to lead to benefits by providing opportunities to test other labor market policies, namely wage subsidies and OJT, on a smaller scale. In addition, economic theory suggests that improvements in the capacity of career consultants to serve vulnerable jobseekers ('the hardest to serve') may lead to higher jobs placements and better matching between jobseekers and employers. This leads to a higher likelihood of placement, faster placement and therefore lower unemployment durations, and better job matches, resulting in a longer job tenure and higher job satisfaction for both employees and employers.

²⁵ Financial constraints include prohibitively high interest rates and collateral requirements for vulnerable groups while nonfinancial constraints encompass the absence of business knowledge, practices, and management capital; limited access to markets (value chains), networks, and mobility; and other factors.



5. **The development and design of APEA digital systems and an improved labor market research system will lead to efficiency gains in the operations of labor market policies in general.** The cost of upgrading the existent IT systems with simple functionalities to produce more and better monitoring information is relatively low compared to the budget dedicated to ALMPs. The cost of producing labor market analyses is also low compared to the budget of the ALMPs but can yield high impact with regard to employment outcomes.

Cost-Benefit Analysis Methodology

6. **This section describes the methodology of the cost-benefit analysis undertaken to estimate the returns of the project.** The analysis compares the cost and performance of the SEP currently implemented by the Government of Azerbaijan with the enhanced SEP to be implemented by the project. It is expected that the project will increase the benefit-cost ratio of the SEP through (a) continuing to provide improved training provided to beneficiaries, (b) providing individual follow-up visits for all beneficiaries and mentoring and technical support to beneficiaries through dedicated experts, and (c) diversifying the SEP by offering matching grants to select beneficiaries.

7. **As the project supports beneficiaries directly, the costs accrue exclusively to the Government in the form of the cost of the project whereas the benefits accrue mostly to the beneficiaries in the form of improved livelihoods through successful entrepreneurship.** There are also indirect benefits to the Government in the form of increased tax revenue and lower social assistance expenditures. The analysis does not include indirect benefits such as the long-term human capital increases of both beneficiaries as well as children of beneficiary households, stemming from higher income security and job stability. The analysis assumes a share of beneficiary attrition and that dissolved businesses would incur the value of the depreciated asset received at the beginning of the project. Businesses receiving matching grants are expected to incur larger profit, as the initial grant would allow them to.

8. **The costs of the project** include (a) the amount spent on the direct asset transfer to beneficiaries, assumed to be AZN 7,301 (including the cost of technical training, both private and in VTCs, mentoring, and visits) and (b) the cost of matching grants (AZN 8,500 per beneficiary).

9. **Benefits of the project** include (a) the remaining value of the assets that are transferred to beneficiaries, considering depreciation of assets (assumed to be 10 percent per year), and (b) an average additional profit from selling better (or more) products or services (AZN 2,484 per beneficiary per year)

10. **The assumptions for the cost-benefit analysis are based on government monitoring data from the existing SEP and the results from previous beneficiaries from the project.** The average earnings of beneficiaries per month are based on the earnings of the beneficiaries in the SEP for the government scenario, before the World Bank project (estimated at AZN 155 per month for businesses based on information from current beneficiaries). For the beneficiaries receiving matching grants, the analysis assumes that enhanced training and supervision will increase beneficiaries' earnings by 30 percent, and the survival rate is also expected to increase to 70 percent. The analysis assumes that the World Bank-financed project will increase the survival rate of the business supported under the SEP to 50 percent per year, based on evidence by the previous activities due to enhanced beneficiary supervision and mentoring.



Table 2.1. Assumptions for Calculating the Returns to Investment

	Assumptions	
Overall	Minimum wage (AZN)	345.00
	Discount rate	2.50%
	Exchange rate (US\$–AZN)	1.70
	Project duration (years)	5
Component 1	Number of beneficiaries (1.1)	30,000
	Number of beneficiaries (1.2)	30,000
	Number of beneficiaries (1.3)	1,000
	Value of assets per beneficiary (AZN)	6,800.00
	Value of training per beneficiary (AZN)	501.50
	Value of matching grant per beneficiary (AZN)	8,500.00
	Share of business surviving after project (per year)	50%
	Asset depreciation	10%
	Average added yearly business profit	2,484.00
	Added monthly business profit %MW	45%
	Increased profit for business receiving matching grants	745.20
	% increased productivity due to matching grants	20%
	Survival rate of matching grant recipients 70%	
Match rate (individual costs)	40%	

Cost-benefit Analysis Results

11. **The analysis demonstrates that even under the conservative ten-year scenario, the World Bank project can substantially enhance benefit-cost ratios of the SEP.** Table 3.3 gives the results of the IRR to the enhanced World Bank SEP assuming a five-, ten- and fifteen-year benefit horizon. Overall, the project has an IRR of 41 percent considering a fifteen-year time horizon, with an NPV of AZN 101.58 million. The higher benefit-cost ratio is due to the higher cost of improving training and mentoring for beneficiaries more than paying for itself as beneficiaries have higher business survival rates and higher returns from their entrepreneurial activities.

Table 2.2. Cost-benefit Analysis of Component 1 (three-year scenario, per beneficiary)

		15 years	10 years	5 years
Total	IRR (%)	41	41	34
	NPV (AZN, million)	101.58	102.65	13.42
Component 1	IRR (%)	46	45	40
	NPV (AZN, million)	103.87	101.99	21.07
Component 2	IRR (%)	19	16	-13
	NPV (AZN, million)	3.26	1.60	-2.10



12. Under the scenario of assuming a benefit accrual of 10 years, the SEP leads to high returns that justify the significant up-front cost of the SEP and Figure provides the results of the cost-benefit analysis of the project under three different time horizons. As expected, returns of the project increase significantly.

Figure 2.11. Evolution of the NPV of the Project



13. Overall, Component 1 of the project will yield an additional AZN 104.12 million in additional benefits compared to the baseline case of Government implementation. Table 2.3 gives the overall estimated benefits of Component 1. This would yield overall net benefits of about AZN 323 million. Furthermore, compared to implementation of the Government program, the project yields an additional AZN 192 million in net benefits.

Table 2.3. Overall Estimated Benefits of World Bank Program (seven-year scenario)

Program	Total Costs (PV) (AZN, million)	Total Benefits (PV) (AZN, million)	Net Benefits (NPV) (AZN, million)
5-year scenario	222.64	236.39	13.75
10-year scenario	222.64	305.17	100.49
15-year scenario	222.64	323.12	104.12

Note: Values are in Azerbaijani manat.