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IMPLEMENTATION COMPLETION REPORT
(IDA-31090 IDA-31091 PPFQ-Q0350 TF-21293 TF-29742)

ON A

CREDIT

IN THE AMOUNT OF US\$20.0 MILLION

TO THE

REPUBLIC OF AZERBAIJAN

FOR A

PILOT RECONSTRUCTION PROJECT

MARCH 7, 2006

**Infrastructure and Energy Sector Unit
Europe and Central Asia Region**

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 7, 2006)

Currency Unit = Manats (AZM)

1.00 AZM = US\$ 0.00022

US\$ 1.00 = 4.62 AZM

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ANAMA	Azerbaijan Demining Agency
APRP	Azerbaijan Pilot Reconstruction Project
ARRA	Azerbaijan Agency for Rehabilitation and Reconstruction of Areas
CAS	Country Assistance Strategy
EU	European Union
ICR	Implementation Completion Report
IDA	International Development Association
IDP	Internally Displaced Person
IDP-EDS	Internally Displaced Persons Economic Development Support Project
ISDB	Islamic Development Bank
NGO	Non-Governmental Organization
O&M	Operation and Maintenance
PHRD	Japan Government Policy and Human Resources Development Grant
PIU	Project Implementing Unit
PLI	Partner Lending Institution
QAG	Quality Assurance Group
SAR	Staff Appraisal Report
SC	Supplemental Credit
SFDI	Social Fund for Development of IDPs
TA	Technical Assistance
UNDP	United Nations Development Program
UNHCR	United Nations High Commission for Refugees

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AZERBAIJAN
Pilot Reconstruction Project

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<i>Project ID:</i> P035770	<i>Project Name:</i> Pilot Reconstruction
<i>Team Leader:</i> Ellen Hamilton	<i>TL Unit:</i> ECSIE
<i>ICR Type:</i> Core ICR	<i>Report Date:</i> March 9, 2006

1. Project Data

Name: Pilot Reconstruction

L/C/TF Number: IDA-31090; IDA-31091;
PPFI-Q0350; TF-21293;
TF-29742

Country/Department: AZERBAIJAN

Region: Europe and Central Asia
Region

Sector/subsector: Power (36%); General agriculture, fishing and forestry sector (32%); Central government administration (14%); General education sector (10%); Other social services (8%)

Theme: Other social development (P); Participation and civic engagement (P); Administrative and civil service reform (P); Rural services and infrastructure (S); Personal and property rights (S)

KEY DATES

PCD: 05/07/1997
Appraisal: 04/08/1998
Approval: 07/02/1998

	<i>Original</i>	<i>Revised/Actual</i>
<i>Effective:</i>	11/05/1998	02/10/1999
<i>MTR:</i>	12/01/1999	03/12/2001
<i>Closing:</i>	12/31/2001	09/30/2005

Borrower/Implementing Agency: GOVERNMENT OF AZERBAIJAN/AZERBAIJAN AGENCY FOR REHABILITATION AND RECONSTRUCTION OF AREAS (ARRA) / AZERBAIJAN SOCIAL FUND FOR DEVELOPMENT OF IDPS (SFDI)

Other Partners: UNDP, UNHCR, EU

STAFF	Current	At Appraisal
<i>Vice President:</i>	Shigeo Katsu	Johannes F. Linn
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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: S
Sustainability: L
Institutional Development Impact: SU
Bank Performance: S
Borrower Performance: S

	QAG (if available)	ICR
<i>Quality at Entry:</i>	S	S
<i>Project at Risk at Any Time:</i>	No	

Introduction

The military conflict between Azerbaijan and Armenia over Upper Garabagh lasted from 1992 to 1994. It resulted in losses of more than 30,000 lives and the displacement of over 1 million people. Of the approximately 8 million people living in Azerbaijan, about 575,000 were considered to be ‘Internally Displaced Persons’ (IDPs). During the conflict, the territories adjoining the cease-fire line (the so-called “liberated territories”) suffered the greatest damage, losing nearly all infrastructure and most housing. The cease fire line disrupted not only traditional transport corridors, but also the power grid. Schools and hospitals were damaged or destroyed, as were gas and water networks. Land mines further complicated reconstruction and rehabilitation.

After the ceasefire, it was important to rapidly and efficiently rebuild the main infrastructure, restore power, rehabilitate the transport network and rebuild social infrastructure, such as schools and hospitals. To address the reconstruction needs in the ten districts (raions) most severely affected by the war, the Bank, the Azerbaijan Government and other international donors (UNDP, UNHCR and EU) developed in 1997-1998, with the help of a USD 1.3 million Japan Government Policy and Human Resources Development (PHRD) Grant a USD 120 million *Priority Program for the Resettlement and Reconstruction of the Liberated Territories*. It subsequently led to the preparation of the 'Azerbaijan Pilot Reconstruction Project - APRP (USD 54.2 million) which was to finance the first phase of the *Priority Program* and in which the Bank participated with a USD 20.0 million (SDR 14.9 million) IDA Credit approved on July 2, 1998 (Cr. 3109-AZ) . Expected and actual financing for the APRP is shown in Table 1 below.

Table 1: APRP Funding Sources and Amounts

<i>Source</i>	<i>Planned Program</i>		<i>Implemented Program</i>	
	<i>Total</i>	<i>Total in %</i>	<i>Total</i>	<i>Total in %</i>
Government	9.4	17	9.6	11
IDA	20.0	37	18.7	22
UNDP	3.2	6	14.2	17
UNHCR	12.1	22	7.2	9
EU	9.5	18	24.8	30
Other	0	0	9.4	11
Total	54.2	100	83.7	100

All Bank and other donor-financed activities included in the APRP were coordinated by the ‘Azerbaijan Rehabilitation and Reconstruction Agency (ARRA)’, a Government agency which was created in 1996 for this purpose. Since each donor participating in APRP was solely and exclusively responsible for supervising the implementation of the components it had agreed to finance, this ICR focuses **only** on those activities that were financed by the Bank under Cr. 3109-AZ (as well as those under the 'Supplemental Credit', see below).

While implementing the APRP, the Government realized that it was important to also improve the living conditions of many IDPs who came from the still occupied parts of the country to which they could not return. In 1999 the Bank agreed therefore to provide a USD 10.0 million (SDR 7.4 million) Supplemental Credit (henceforth referred to as “SC”) to the APRP to help create a ‘Social Fund for the Development of IDPs (SFDI) to finance micro-projects with social and economic objectives and offer IDPs a basis for new economic opportunities through access to micro-credits.

In addition to the activities developed under APRP and SFDI, support to IDPs was also provided by the Islamic Development Bank (ISDB), the Asian Development Bank (ADB), bilateral donors, and various NGOs.

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

As stated in the SAR, the purpose of the APRP was to implement the first phase of the *Priority Program for the Resettlement and Reconstruction of the Liberated Territories*. The development objectives of the APRP were to: (a) facilitate the repatriation of people who had become ‘internally displaced’ (IDPs) as a result of the military conflict over Upper Garabagh; and (b) raise their standard of living through:

- the development of an effective approach to the voluntary resettlement and rehabilitation of IDPs;
- the establishment and strengthening of agencies in Azerbaijan involved in the voluntary resettlement of IDPs, demining, and reconstruction of areas affected by the conflict over Upper Garabagh; and
- assistance in raising and coordinating support from international donors and NGOs.

As mentioned above, Bank support to IDPs consisted of two operations: the **Azerbaijan Pilot Reconstruction Project (APRP)**, approved on July 2, 1998, and the **Supplemental Credit (SC)**, approved one year later, on June 8, 1999. While they were connected, they were implemented by separate Project Implementation Units (PIUs). Table 2 summarizes the major characteristics and differences between APRP and the SC.

Table 2—Summary Description of APRP and SC
(World Bank financed activities only)

APRP (1998-2005)	SC (1999-2005)
<ul style="list-style-type: none"> • Medium scale infrastructure • Rehabilitation of power lines and water supply systems • rehabilitation of irrigation systems • Rehabilitation and reconstruction of schools and hospitals damaged or destroyed during the military conflict • Distribution of pregnant cows to returning IDPs to improve incomes • <i>Operated only in districts adjoining the cease-fire line</i> • Financed the start-up of operations of the Azerbaijan Demining Agency (ANAMA) • PIU was the Azerbaijan Agency for Rehabilitation and Reconstruction of Areas (ARRA) 	<ul style="list-style-type: none"> • Community-driven sub-projects: Rehabilitation of living conditions of IDPs (roofs, water and wastewater systems, creation of small community centers), construction of small schools in areas with high concentration of IDPs throughout of the country • <i>Operated across entire country</i> • Disbursed about US\$2 million for micro-credits to IDPs • PIU was the Social Fund for the Development of IDPs (SFDI)

A major purpose of the APRP was to develop a pilot program to give Azerbaijan authorities the means, tools and resources for reconstruction and for improving the living conditions of IDPs and helping them to

voluntarily return to their homes from tent camps and other temporary shelters where they lived in poor conditions. APRP was to support the voluntary return of about 20,000 IDPs (3,600 households) and restore the economic base for the approximately 365,000 people who had remained in the three districts of Fizuli, Agdam and Terter, which had suffered extensive damage during the hostilities. The APRP was designed to create sustainable living conditions for the population of these three districts and provide basic needs including water, sanitation, health care and education, means for sustainable economic development, creating and rehabilitating infrastructure, communication and energy supply lines, and provide financing for small scale income generation activities. The project also supported the creation of the Demining Agency and the IDP Relocation Agency. The original project development objectives continued to be relevant throughout project implementation.

The need for two PIUs was determined by the two levels of support provided: (i) macro-level rehabilitation of infrastructure and social services by ARRA and (ii) micro-level support to IDP communities for small investments and availability of micro-credit for individuals by SFDI. ARRA operated exclusively in districts located adjoining the cease-fire line, while SFDI worked across the country wherever IDPs were concentrated, in order to help implement community priorities and provide relief for the most needy. The two PIUs established the same transparent rules of procurement, new standards for construction and cooperation with the local officials, and their staff met regularly to facilitate coordination.

3.2 Revised Objective:

Project objectives were not changed, although the growing sense of hopelessness during the late 1990s among IDPs across the country resulted in an expansion of project activities by inclusion of the SC. The SC focused on community based development actions and micro-credit access to improve the living standards of IDPs regardless of location. Although the SC targeted IDPs, it did not discriminate against poor people living side-by-side with the primary beneficiaries.

3.3 Original Components:

The original APRP (including UNDP, UNHCR and EU financed activities) included the following components (with amounts of proposed IDA funding shown **in bold**):

1. Relocation Support (USD 1.8 million): The component was to finance a program to provide cash support to returning IDPs;
2. Reconstruction and repair of housing (USD 14.0 million): The component was to finance the reconstruction or repair of about 3,500 houses destroyed or damaged during the war;
3. Income Generation (USD 10.9 million) consisting of three sub-components:
 - (a) Agriculture (USD 9.4 million - of which **IDA USD 6.0 million**): The sub-component was to finance the provision of agricultural inputs, the rehabilitation of irrigation infrastructure, and the provision of agricultural extension services, as well as technical assistance specifically needed for the implementation of the sub-component
 - (b) Micro-credits and small grants (USD 1.1 million - of which **IDA 0.4 million**): The sub-component was to finance micro-credits and small grants to assist returning IDPs in opening small businesses; and

- (c) Public works, Environmental mitigation (USD 0.4 million - of which **IDA 0.4 million**): The sub-component was to finance labor-intensive public works projects in small towns and villages.
4. Health and Education (USD 5.1 million) consisting of two sub-components:
 - (a) Health (USD 0.9 million – of which **IDA 0.9 million**): The sub-component was to finance repair and rehabilitation of health care facilities, provision of essential drugs, medical supplies and equipment, and costs of training, capacity building, and monitoring and evaluation; and
 - (b) Education (USD 4.2 million – of which **IDA 1.9 million**): The sub-component was to finance structural repair and rehabilitation of educational facilities, supply of learning materials, and costs of training capacity building, and monitoring and evaluation.
 5. Infrastructure and Energy (USD 14.5 million) consisting of two sub-components:
 - (a) Infrastructure (USD 2.4 million – of which **IDA 0.4 million**): The sub-component was to finance repair and rehabilitation of water supply systems, transport and telecommunication infrastructure, as well as the costs of capacity building and monitoring and evaluation; and
 - (b) Energy (USD 12.1 million – of which **IDA 7.2 million**): The sub-component was to finance the repair and rehabilitation of power transmission lines, transformer stations and other equipment; and
 6. Institutional Support (USD 5.3 million – of which **IDA 2.8 million**): The component was to finance operations of ARRA, the creation of the Demining Agency, and the creation of and IDP Relocation Agency.

3.4 Revised Components:

The components of APRP were not changed during implementation, but were expanded with the inclusion of the SC, which financed:

1. Micro-Projects (USD 7.0 million – of which **IDA USD 7.0 million**) The component was to finance micro-projects with social and economic objectives in IDP communities in all districts of Azerbaijan.
2. Micro-Credits (USD 2.1 million – of which **IDA USD 2.1 million**). The component was to finance the provision of micro-credits through intermediary Partner Lending Institutions (PLIs) to IDP owned micro-enterprises and to individual borrowers.
3. Operational Support (USD 1.6 million - of which **IDA USD 0.9 million**). The component was to finance the operating costs of SFDI, as well as necessary technical assistance and consulting services.

By the mid-term review in Spring 2001, the original APRP IDA-financed work program had been largely completed, however overestimation of investment costs and savings from competitive and transparent bidding procedures meant that *actual costs were about half of the estimated costs*. At that time it was decided to lift the geographic limitation and to include an additional seven war-affected districts (Aghstafa, Gazakh, Gedabek, Goranboy, Khanlar, Nakhchivan, and Tovuz), all of which were included in the original *Priority Program for the Resettlement and Reconstruction of the Liberated Territories*. Funds were reallocated, in accordance with OP/BP 13.25 Use of Project Cost Savings, in March 2002.

3.5 Quality at Entry:

The ICR rates the Quality at Entry for APRP and SC as a whole as *marginally satisfactory*. The Quality at Entry of APRP was assessed by QAG and found *satisfactory*; however this did not apply to the SC, which was not assessed at its inception.

The ICR rating is based on the following:

Consistency with Bank Strategy: APRP and SC fulfilled this to a *substantial degree*. The project objectives were consistent with the Bank Country Assistance (CAS) programs for Azerbaijan of 1996 and 1999 and highly relevant in the country's post-conflict context. As summarized in the SAR, the objectives of the Bank's assistance strategy were to (a) support changes in the existing policy and institutional framework that would encourage sustainable growth led by an efficient and equitable private sector; (b) support efforts to enhance the competitiveness of critical economic sectors; (c) alleviate poverty; and (d) resettle and raise the living standards of IDPs.

Government Ownership and Stakeholder Involvement: APRP and SC fulfilled this to a *substantial degree*. The reconstruction objectives of APRP were fully supported by the Government, the authorities of the beneficiary districts, and representatives of IDP communities. The Government established both PIUs, prepared initial investment plans, and worked effectively with the Bank at all stages of APRP preparation and implementation. APRP/SC also enjoyed the support of the international donor community which believed improving IDP living conditions to be an important factor for political stability.

Project Design: APRP and SC fulfilled this factor to a *modest* degree for three main reasons:

- Although the formal development objective for the APRP was well conceived and appropriate for an emergency-type project, the original APRP program was too broad for a single project as it included implementation of (1) infrastructure investment programs at the macro level; and (2) means of income generation, and community development actions more typical of a social fund at the micro-level. The government and the Bank soon recognized the difficulties associated with this dual level program and resolved many aspects of the project's complexity by developing the SC, which implemented the community-driven micro-project implementation and expanded microfinancing.
- The APRP's design was also intended to further a broader range of policy and sectoral objectives than would be expected given the stated development objective and the nature of the operation. These objectives included privatization of housing and land, development of rural micro-finance institutions, reform of health and education, improvement in power distribution management and cost recovery for electricity from IDPs. These sectoral objectives were poorly understood and weakly supported by Government counterparts and other donor representatives who saw APRP primarily as an emergency reconstruction operation intended to address immediate humanitarian, social and economic redevelopment needs. In practical terms, the ability of ARRA, which had been created to implement physical reconstruction, to change electricity tariff structures, to introduce user fees for social services, or to further land reform or private sector involvement in agriculture was modest. During implementation, most of the broader sectoral objectives were appropriately dropped from the project but picked up in sectoral lending operations and the broader policy dialogue.
- Finally, by design APRP was to finance a common reconstruction program by multiple donors. Despite strong commitments by the Bank, UNDP, UNHCR and EU to the APRP, difficulties subsequently arose as each partner had its own funding sources, funding timetables, and institutional priorities and constituencies. For example, when UNHCR unexpectedly discontinued reconstruction of

housing, it took the Government about a year to reallocate the necessary funding, which resulted in delays in building about 1,200 houses in the conflict-affected regions.

Project Administrative Structure: APRP and SC fulfilled this to a *substantial* degree. The administrative structure of the project was appropriate and the two implementing agencies, ARRA and SFDI, proved to be fully capable of handling project implementation. An innovative feature worth noting is that SFDI's Supervisory Board consisted of not only Government representatives, but also representatives of the donors active in Azerbaijan.

Readiness for Implementation: APRP and SC fulfilled this requirement to a *modest* degree. APRP was ready for implementation when it was approved by the Board since it was a part of the broader *Priority Program for the Resettlement and Reconstruction of the Liberated Territories* that had been prepared by the Government and the donor community. However, the SC was prepared quickly in order to meet IDA-11 processing deadlines and *was not fully ready at the time of Board approval*. This resulted in long delays during early stages of implementation, which caused the project to have an overall unsatisfactory rating for six months in 2002.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

Project outcome was *satisfactory* overall, with most project objectives achieved, and nearly every outcome indicator met or exceeded (see Outcome Indicators in Table 3, below). About 33,000 IDPs had returned home by end 2005. Using the experience of APRP and funding from the State Oil Fund the Government has closed five "tent camps" and will close the remaining seven no later than end 2007. The APRP project areas are now self-sufficient in grains, milk and other agricultural produce. Farm incomes have increased. Electricity coverage has increased from 18% to 100% of households and businesses. Hospitals and schools have been reopened and water and other infrastructure services restored. The Project supported establishment of the State Demining Agency (ANAMA) by assisting with the construction of a permanent base for the agency and procuring the original vehicles. ANAMA has continued to develop with support from the Government and other donors.

SFDI micro-projects have benefited about 160,000 people (the majority of whom live in dormitories, administrative or educational buildings or other collective centers) in nearly 200 IDP communities. Through financial intermediaries (Partner Lending Institutions) SFDI has provided resources for nearly 7,000 loans to small/informal and somewhat larger formal enterprises. About 45% of all micro-loans have been extended to women. Impact assessments carried out in Baku by the Norwegian Refugee Council and Oxfam demonstrated that micro-credits had a significant positive impact on IDP micro-enterprises. Enterprises in Baku showed a job increase of 46%, while profits and family consumption grew by 100%. Results in the interior of the country were similar with revenue growing by 35%, expenditures on food by 30% and expenditures for health and education by 35%.

Other achievements included:

- The APRP created a transparent mechanism for government tenders for public works for both large and small scale projects. The investment programs are announced and interested parties are asked for expression of interest and participating in tenders by tender committees established at ARRA and SFDI. Such procedures saved a substantial amount of money that was then invested in other subprojects. The national authorities recognized the importance of the transparent nature of investment

tenders and converted it into Law, so that it applied to procurement in other areas as well.

- The SC activities established sound criteria for the selection of socially important investment projects on community level, including mechanisms for beneficiary participation at all stages of micro-project selection, design and implementation. Both PIUs conducted special workshops on project effects and potential difficulties during construction and reconstruction works for the population of the region at early stages of the Project. Special meetings of parents of children for schools that are planned for reconstruction are now regularly conducted prior to construction.
- The project substantially raised facility design and construction standards and improved incentives to apply them in the future. Both PIUs provided training seminars for the companies that expressed interest in tenders. Six workshops were conducted for construction companies since 1999.
- The APRP created many jobs for returning IDPs remaining in temporary housing. Nearly all ARRA investments and all SFDI micro-projects created employment opportunities for IDPs as contractors hired local residents for the implementation of their projects. Up to 90 percent of the workforce was comprised of IDPs.
- Rehabilitated schools and hospitals became working places for returning teachers and doctors, creating additional incentives for return of highly-qualified refugees.
- SFDI micro-credits allowed several thousand IDPs and poor people to open private bakeries, car body-shops, agro-processing works, and other small businesses.

It should be noted that the Government and country and sector management were highly pleased with the outcome of the APRP, and a follow-on project similar to the SC was prepared on Government request and approved by the Board in January, 2005—the Internally Displaced Persons Economic Development Support Project (IDP-EDS) Project.

Table 3: Achievement of Outcome Indicators

<i>Project Outcome Indicators</i>	<i>1999</i>		<i>2000</i>		<i>2001</i>		<i>2004*</i>
	<i>Actual</i>	<i>Target</i>	<i>Actual</i>	<i>Target</i>	<i>Actual</i>	<i>Target</i>	<i>Actual</i>
Percentage of IDPs returned	16	16	69	66	100	75	120***
Percentage of the population living below poverty line in the project area	40	40	25	25	10	10	5
Average annual household income of returned IDPs (USD)	788	925	1,920	2,000	2,996	3,000	4,170
National GDP per capita (for reference only)	582		670		725		1,048
<i>Project outputs</i>							
Number of houses completed by April of each year**	1,000	1,550	2,100	2,100	3,469	2,500	4,714
Percentage of the damaged infrastructure repaired	40	40	90	80	100	100	100
Number of schools required and equipped	12	12	23	35	44	36	101
Number of health facilities repaired and equipped	8	3	19	32	27	32	53
Electricity coverage (percentage of population and businesses connected to the power grid)	18	20	48	90	80	100	100

- * Project targets were set for completion in 2001. The 2004 results show the actual status by 02.01.2005.
- ** UNHCR financed the reconstruction of about 3,600 houses or about 75% of a total of about 4,800 houses destroyed during the hostilities, the remainder having been rebuilt with resources of the State Oil Fund.
- *** APRP expected the return of 20,000 IDPs to the Fizuli, Terter and Agdam districts by the end of 2001, whereas the Government Repatriation Department reports the return of about 24,000 IDPs. A total of 36,000 IDPs returned to the ten districts directly affected by the conflict.

4.2 *Outputs by components:*

4.2.1 APRP:

The description below only refers to the APRP components funded by IDA through Cr.3109-AZ:

1. Income Generation: The component included three sub-components:
 - (a) Agriculture (expected IDA amount USD 6.0 million, actual USD 5.6 million): APRP financed the rehabilitation of about 530 artesian wells, as well as pumps, irrigation canals and reservoirs in project areas. In addition, it financed the purchase and distribution to returning IDPs of about 2,567 pregnant cows (out of an original target of 2,800 cows) for milk production, as well as veterinary services, training and monitoring follow up support. It is estimated that there are now about 8,000 head of cattle. This program has been highly successful and has had a substantial impact on beneficiary households who sell the milk and meat. Efforts to increase private sector involvement in agricultural support services through establishment of agricultural machinery leasing companies met with considerably less success, although ultimately were picked up in the context of a sector operation.
 - (b) Micro credits and grants (expected IDA amount USD 0.4 million, actual USD 0.0 million). Micro-credit activities were incorporated into the SC. In addition, UNDP developed and financed a micro-credit program administered through ARRA.
 - (c) Public work (expected IDA amount USD 0.4 million, actual USD 0.0 million). Public works were incorporated into contracting for the community investments under the SC.
2. Health and Education: The component included two sub-components:
 - (a) Health: (expected IDA amount USD 0.9 million, actual USD 1.3 million): The sub-component financed the structural repair, rehabilitation and re-equipment of 40 health care facilities, including hospitals with a total capacity of over 500 beds, in six districts.
 - (b) Education (expected IDA amount USD 1.9 million, actual USD 4.0 million): The sub-component financed structural repair and rehabilitation of 39 educational facilities and provision of school furniture and equipment to about sixty schools, and was complemented by a CHF 750,000 Grant from the Swiss Government (TF 021293) of which 65% was actually disbursed as a result of costs being less than projected.
3. Infrastructure and Energy: The component included two sub-components
 - (a) Infrastructure (expected IDA allocation USD 0.4 million, actual USD 0.1 million): The sub-component financed the repair and rehabilitation of water supply systems (wells, pumping stations, and distribution networks) sufficient to meet demand for drinking water by providing 150-200 liters per capita per day.
 - (b) Energy (expected IDA amount USD 7.2 million, actual USD 6.9 million): The sub-component financed the repair and rehabilitation of power transmission lines, transformer stations and

other equipment. It was instrumental to restoring power to most of the population in the project areas. In a recent survey, about three-quarters of households in the six districts with energy investments stated that electricity supply had improved during the past 5-6 years. The same survey showed that, on average, about half of households were supplied with electricity for twelve or more hours per day.

4. Reconstruction and Repair of Housing (expected IDA amount USD 0.0 million, actual USD 0.3 million): This component enabled 33,100 people to return to their homes in eleven districts by financing the reconstruction and/or repair of about 4,714 houses. Resources were provided by the State Budget, State Oil Fund, UNCHR, UNDP, EU, NGOs, and private sector contributors. Prior to credit effectiveness, a small amount of PPF funds were used for the reconstruction of about 75 houses in Nakhichevan.
5. Creation and Support to Azerbaijan Demining Agency (ANAMA) (expected IDA amount USD 0.6 million, actual USD 0.5 million). The component financed start up costs for the Agency (demining and other operational equipment, vehicles and construction of office and storage facilities. With strong support from donors and the Government, the Agency continues to develop capacity. As of 2005, the Agency had cleared and surveyed about 20 square kilometers of land along power-lines, irrigation canals, water pipes, roads and in areas used for housing and agriculture. At USD 1 per square meter demined, costs are well below the USD 2-3 per square meter cost typical in most other countries.
6. Operating Costs of ARRA (expected IDA amount USD 1.4 million, actual USD 0.1 million): ARRA operations were funded by the Government. The component financed the annual audits.

4.2.2 SC

The SC consisted of two components:

1. Micro-Projects (expected IDA amount USD 7.0 million, actual USD 6.9 million): The component which was implemented by SFDI financed the implementation of 192 micro-projects benefiting about 170,000 people throughout the entire country. The detailed distribution of projects by category of works is shown below.
2. Micro-Credits (expected IDA allocation USD 2.1 million, actual USD 2.0 million) Micro-credits were provided, under the oversight of SFDI, through the intermediary of Partner Lending Institutions (PLIs) including seven local credit unions and five micro-credit institutions supported by international NGOs. All together, the PLIs made a total of about 12,350 loans of between USD 275 and USD 1,500 to small businesses and individuals.

Additionally, SC financing included an expected USD 0.9 million (actual USD 1.2 million) for SFDI operating costs, technical assistance and institutional support).

Table 4: Distribution of micro-projects by category

<i>Category of Projects</i>	<i>Number</i>	<i>in % total</i>
Rehabilitation of dormitories and other temporary housing facilities	48	25
Rehabilitation of well, water supply and irrigation systems	32	17
Repair of sewerage systems	6	3
Extension of power distribution networks	21	11
Extension of natural gas distribution networks	4	2
Repair and improvement of local roads	29	15
Rehabilitation and equipment of schools	19	10
Rehabilitation and equipment of social facilities	5	3
Other	28	15
Total	192	100

4.3 Net Present Value/Economic rate of return:

Neither APRP nor SC included any formal economic analysis of sub-projects because (a) APRP projects were essentially of an emergency nature and (b) SFDI micro-projects were demand-driven and therefore not identifiable on an ex-ante basis.

Although this cannot be easily quantified, it is important to note that APRP and SC created a large number of jobs for IDPs, especially in the construction industry where it was found that, in some cases, up to 90 percent of the workforce was comprised of IDPs. It should also be mentioned that re-establishing access to electric power and rehabilitating irrigation systems provided the basic conditions necessary to resume agricultural and other economic activities in the APRP project areas.

4.4 Financial rate of return:

For the same reasons as above, the project did not include any Financial Rate of Return Calculation.

4.5 Institutional development impact:

The institutional development impact of the project was *substantial*:

- APRP and SC contributed to establishing transparent mechanisms for public procurement of works and goods. Open public tenders have become a standard practice in Azerbaijan, at least partly as a result of training and materials provided by the project. Recognizing the importance of transparency in tender procedures the Government has made it an important element of national procurement legislation.
- Implementation agencies, ARRA and, to a greater extent, SFDI, have been selected to implement other state programs to resettle IDPs and refugees from temporary to permanent housing (financed by the State Oil Fund), as well as to implement projects for other international donors. Both agencies remain functional, although ARRA is operating on a somewhat reduced scale.
- SFDI, in particular, established systematic public participation as a key element in the decision making, design and tendering process for social and other investments in local communities and by involving the population in implementation supervision and monitoring.

- APRP supported the development of the Demining and Repatriation Agencies. Both agencies are fully operational and fully funded.

Finally, should there be a peace settlement with Armenia, the experience of both ARRA and SFDI would provide an excellent basis for reconstruction and resettlement of any areas returned to Azerbaijani control.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

None.

5.2 Factors generally subject to government control:

As discussed in 3.1, the Government quickly recognized difficulties associated with a two-level implementation program and resolved many aspects of this complexity with the development and implementation of the SC.

5.3 Factors generally subject to implementing agency control:

Both implementing agencies acted quickly to address difficulties as they emerged in order to move project implementation forward.

- Strong supervision of contractors by ARRA meant that contracts were completed on time and without cost overruns, with the exception of a couple of contracts where the contractors did not perform.
- The community co-financing threshold (10 percent for investments and 20 percent for equipment) that was set by the SC proved to be too high for IDP communities that have unstable incomes. This at first resulted in slow implementation of micro-projects under the SC (only six for all of 2001). SFDI recognized the problem and worked with the Bank to reduce the thresholds to an average of three percent that allowed accelerated implementation of the SC (28 sub-projects in 2002 and 98 in 2003).

5.4 Costs and financing:

The estimated costs for the original APRP components were substantially above actual costs. About USD 10 million was saved due to the use of competitive bidding procedures. Over-estimation of rehabilitation costs resulted in part from the lack of reliable information on the extent of damages and construction costs. After the MTR, the savings were used to expand APRP's geographic scope from three districts to ten.

The APRP was signed in August 1998 for the period until the end of 2001. The SC was signed in August 2000 and the closing date extended to March 31, 2003 to allow time for implementation of SFDI activities. The project was subsequently extended four more times and closed on September 30, 2005. The delays were primarily for two reasons:

- The SC was not fully prepared when approved, and so when preparation was finally completed (during implementation), it was reasonable to extend the closing to allow implementation to proceed, as it successfully did.

- The Government proposed using the savings from the APRP for similar investments in additional districts, which required additional time for identification, preparation and implementation.

6. Sustainability

6.1 Rationale for sustainability rating:

The sustainability of APRP and SC is rated *likely* due to the following factors:

- The follow-on IDP-EDS Project, which continues the SC micro-credit and micro-project activities, was prepared at the request of the Government and approved by the Board in January, 2005, and will help to sustain the benefits of the SC.
- The APRP and SC were successful in engaging vulnerable layers of the Azerbaijan society in self-generated economic activities through SC micro-credits and APRP generated employment opportunities. The microcredit activities helped more than 4,500 IDP to start their own business and become less dependent on state subsidies. Construction companies have hired more than 3,000 IDPs on a permanent basis. Rehabilitated schools and hospitals provide permanent jobs for about 500 IDPs who returned home.
- The APRP with other donor programs helped to create food self-sufficiency for the people in the area. Conflict-affected regions have not requested food assistance since 2000 and currently are net exporters of grains and agricultural produce to other areas of the country.
- New competitive and transparent tender rules and careful supervision of sub-projects substantially improved construction quality. These practices are now standard for social projects and helped in the development of many private construction companies that continue to employ IDPs.
- ARRA and (to a greater extent) SFDI have proved themselves so successful in carrying out Bank-financed project operations that both have been charged with implementing state programs to resettle IDPs to permanent housing financed by the State Oil Fund. The quality performance of SFDI was recognized by its selection as the PIU for the new Bank IDP-EDS Project.
- ANAMA remains fully functional and is financed by the Government and donors.
- All investments are transferred to the appropriate ministry or local government authorities for operation and maintenance (O&M) upon completion. The micro-project selection criteria of SFDI prioritize proposals by beneficiary communities who are able to organize and sustain O&M.

Although outside the scope of a project such as this one, it should be noted that the Government continues to pay for utilities provided to IDPs. Although there is a social rationale for these subsidies, the continuation of subsidies in this form indefinitely represents a considerable financial obligation and may encourage households to use these services wastefully. The broader question of whom to subsidize and how to subsidize them remains part of the Bank's broader policy dialogue with the Government.

6.2 Transition arrangement to regular operations:

As discussed above, O&M of infrastructure and equipment financed by APRP and SC is ensured by the relevant sector ministries, utilities, or beneficiary communities. Both implementing agencies will also continue to operate.

7. Bank and Borrower Performance

Bank

7.1 Lending:

Bank performance at lending is rated *satisfactory*. Quality at Entry has been described in detail in Section 3.5 and was assessed as *marginally satisfactory*. Project preparation began in Fall 1996 and took 22 months to be completed. Preparation was supported by a Bank PPF of USD 2.0 million and a Japanese Government PHRD Grant of USD 1.3 million (TF 029676/029472). The PHRD Grant financed the preparation of the *Priority Program for the Resettlement and Reconstruction of the Liberated Territories* which formed the basis for APRP.

7.2 Supervision:

Project supervision was not assessed by the Quality Assurance Group. The ICR rates project supervision by the Bank project team as *moderately satisfactory*. The project team established good working relations with both ARRA and SFDI as well as with counterparts in the Government. High turnover among task managers (five in total) created some difficulties for the Government as each new task manager had to become familiar with the project.

The complexity of project design required the Bank team to intensify supervision efforts and to simplify the project by focusing on emergency reconstruction and community development, rather than on sectoral reforms that required substantially higher financial assistance and TA effort than expected. The supervision team and the Government jointly decided to reduce sector-specific TA that was not suitable for an emergency reconstruction project in order to focus on the primary project objectives.

Supervision missions were adequately staffed and carried out at reasonable intervals.

7.3 Overall Bank performance:

Overall Bank performance is assessed as *moderately satisfactory*.

Borrower

7.4 Preparation:

The Government's performance in project preparation is assessed as *satisfactory*. The Government was actively involved in the identification and preparation of both APRP and SC and provided necessary support efficiently and diligently.

7.5 Government implementation performance:

The performance of the Government in the implementation of APRP and SC is assessed as *satisfactory*.

The Government actively participated in project implementation and supported actions to enhance transparency and to improve community involvement. It maintained strong ownership of APRP and was open for discussions if misunderstandings occurred. It helped implementing agencies in resolving all regulatory obstacles and prepared the follow up IDP-EDS project.

7.6 Implementing Agency:

The performance of both ARRA and SFDI was *satisfactory* in all aspects of project implementation, including procurement management, technical supervision and financial management. They performed particularly well for organizations working in newly independent countries. They successfully implemented principles of openness and transparency in their work and maintained them through the entire period of implementation. Both ARRA and SFDI were effective in selection, supervision and monitoring of all sub-projects.

The Government and the Bank recognized the quality of SFDI's management performance by selecting it as the implementing agency for the follow up IDP Economic Development Support Project (Cr. 4043-AZ). Both ARRA and SFDI have also been selected to manage other programs financed by the Government, and other donors.

Reporting by both agencies has been of a persistently good quality. Both agencies undertook at their own initiative to hire consultants to carry out a detailed evaluation of project results and impacts.

7.7 Overall Borrower performance:

The overall Government performance is rated *satisfactory*.

8. Lessons Learned

Emergency reconstruction operations should not be combined with broad sectoral policy reform efforts. APRP was a good example of a well conceived post-conflict reconstruction operation. However, APRP's experience supports the guidance provided in OP/BP 8.50 on emergency operations by showing how difficult it is to implement urgently needed rehabilitation investments while simultaneously pursuing broader policy reforms in a number of sectors. Sectoral objectives require support from more focused interventions. Addressing these kinds of objectives in sectors ranging from education and health to electricity and agriculture was outside the competency of ARRA, which had been established to implement the narrower reconstruction program.

Operations that involve multiple donors must be carefully designed to allow for differences agendas, financing arrangements and funding timetables among donors. Coordinating donor response is of particular importance in an emergency-type operation such as the APRP and SC as it should foster synergies among donor programs as well as avoiding unnecessary duplication of effort. At the same time, it is important to keep in mind that the different procedures and resource constraints faced by different donors, which may result in different paces of implementation. Projects with mutually interdependent components financed from different sources face additional risks as difficulties experienced by one donor with its program may have a ripple effect on implementation of components implemented by other donors.

Too narrowly limiting project beneficiaries may create additional social and political risks. In the course of project implementation, both the Bank and the Government supported actions to extend project benefits in recognition of the fact that although many IDPs are poor, not all poor people are IDPs. The APRP initially focused only on improving living conditions for IDPs in three districts, but at the mid-term

review the geographic focus was extended to include new beneficiaries by adding an additional seven districts. The pool of potential beneficiaries increased dramatically with the approval of the SC, which made micro-projects and micro-credits were available to IDPs nationwide. During the course of project implementation, micro-project guidelines were changed so as to allow a greater share of non-IDP local populations to benefit. This allowed micro-projects to support cooperation among local and IDP populations instead of possibly fostering resentment.

9. Partner Comments

(a) Borrower/implementing agency:

See Additional Annex 8.

(b) Cofinanciers:

(c) Other partners (NGOs/private sector):

Dear Ms. Ellen Hamilton,

In response to the letter dated January 17, 2006, received from Ms. Saida Bagirli, Acting Country Manager, World Bank, please find below our comments for your Implementation Completion Report for the joint UNDP and Government of Azerbaijan "Azerbaijan Reconstruction and Rehabilitation Programme".

In 1996 jointly with the World Bank, the UNDP took the lead in supporting the creation and strengthening capacity of Azerbaijan Reconstruction and Rehabilitation Agency while at the same time testing the operational implementation of Reconstruction and Rehabilitation efforts. This was Phase I of the Azerbaijan Reconstruction and Rehabilitation Programme, followed in May 1997 by Phase II. Phase I budget was USD 500,000, during which the UNDP invested USD 200,000 for institutional capacity building of ARRA and USD 300,000 in the actual rebuilding of physical infrastructures. Phase II budget, started in June 1997, was USD 2,762,350 which includes three distinct parts: (a) USD\$335,000 to sustain and strengthen ARRA; (b) USD 1,163,414 to rehabilitate schools, hospitals and public facilities, and (c) a World Vision International contract to promote self employment of IDPs through USD 660,000 in Micro-Credit Projects. Government contributed residual budget amounts.

It must be noted that a series of evaluations of the Project, in full and in part, were conducted by a number of independent missions. The fact that this project was reviewed thoroughly six times over two years is in itself remarkable. The fact that each of these missions had praise for efficiency and effectiveness of the program delivery mechanisms can not be underestimated. We take this as a signal of confidence in the worthiness of the project objectives and trust in the national authorities administering it. There is a consensus that continued interest and investment by the international community enabled and facilitated such results within the project.

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10. Additional Information

Annex 1. Key Performance Indicators/Log Frame Matrix

Project Development Objective	Key performance Indicators - projections from PAD	Actuals
Repatriation of about 20,000 internally displaced persons in a way that maximizes their chances to recover economically.	● Average family incomes of returning IDPs:	
	by 1999 - USD 788	USD 925
	by 2000 - USD 1,920	USD 2,000
	by 2001 - USD 2,996	USD 3,000
	by 2004 - N/A	USD 4,170
	● Percentage of people living below the poverty line in the project area falls:	
	by 1999 - 40 %	40 %
	by 2000 - 25 %	25 %
	by 2001 - 10 %	10 %
	by 2004 - N/A	5 %
	● IDP families return to the project area:	
	by 1999 - 16 %	16 %
	by 2000 - 66 %	69 %
by 2001 - 100 %	75 %	
by 2004 - N/A	120 %	
Project Outputs		
Voluntary return of 20,000 IDPs to their previous homes.	● Number of houses completed:	
	by 1999 - 1000	1,550
	by 2000 - 2100	2,100
	by 2001 - 3469	2,500
	by 2004 - N/A	4,714
Reconstruction and rehabilitation of infrastructure, energy supply, health and education services.	● Damaged infrastructure repaired:	
	by 1999 - 40%	40%
	by 2000 - 40%	50%
	by 2001 - 20%	10%
	by 2004 - N/A	0%
	● Schools repaired and properly equipped:	
	by 1999 - 12	12
	by 2000 - 23	35
	by 2001 - 44	36
by 2004 - N/A	101	

	● Health facilities repaired and properly equipped:	
	by 1999 - 8	3
	by 2000 - 19	32
	by 2001 - 27	32
	by 2004 - N/A	53
	● Public buildings and private homes have access to energy supply:	
	by 1999 - 18%	20
	by 2000 - 48%	90
	by 2001 - 80%	100
	by 2004 - N/A	100
Implementation of income generating activities	● Loan repayment rate:	
	by 2000 - 50%	98%
	by 2001 - 95%	99%
	● Business plan training sessions:	
	by 2000 - 20	2,000
	by 2001 - 50	2,000
	by 2004 - N/A	2,200
	● Increase in family farm incomes:	
	by 1999 - 10%	10 %
	by 2000 - 25%	25 %
	by 2001 - 50%	50 %
	by 2004 - N/A	39 %
	● Land titles issued:	
	by 1999 - 1,000	2,000
	by 2000 - 2,100	2,100
	by 2001 - 3,469	3,100
	by 2004 - N/A	4,714
	● Individual/group/private farms number increases:	
	by 1999 - 100	200
	by 2000 - 210	500
	by 2001 - 350	550
	by 2004 - N/A	100%

Establishment of an institutional framework that will be able to handle the repatriation of all remaining IDPs and refugees	<ul style="list-style-type: none"> ● Relocation agency established on August 31, 1998. ● Demining agency has been established by July 1, 2998 ● ARRA staffing plan agreed with IDA in October 1997. 	<p>100%</p> <p>100%</p> <p>100%</p>
Ability and capacity to mobilize the international donor community and coordinate the donor resources necessary to repatriate remaining IDPs and refugees	<ul style="list-style-type: none"> ● ARRA has appointed expatriate advisor for the coordination of international donor support. 	<p>100%</p>

Annex 2. Project Costs and Financing

Annex 2A: Summary of Proposed Procurement Arrangements for APRP (in USD million equivalent)

<i>Expenditure Category</i>	<i>Procurement Method</i>				<i>Total Cost (including Contingencies)</i>
	<i>ICB</i>	<i>NCB</i>	<i>Other</i>	<i>NBF</i>	
1. <u>Works</u>					
1.1 Reconstruction and Rehabilitation Works	7.5 (7.5)	1.3 (1.3)	- -	11.3	20.1 (8.8)
1.2 Minor Civil Works	-	-	0.2 (0.2)	-	0.2 (0.2)
1.3 Housing and Relocation				15.7	15.7
2. <u>Goods</u>					
2.1 Equipment and Machinery	3.1 (3.1)		0.2 (0.2)	1.2	4.5 (3.3)
2.2 Agricultural Inputs	2.5 (2.5)				2.5 (2.5)
2.3 School and Hospital Supplies	1.7 (1.7)				1.7 (1.7)
2.4 Office Equipment and Supplies				0.1	0.1
3. <u>Services</u>					
3.1 Studies, Project Engineering and Supervision				0.2	0.2
3.2 Technical Assistance			0.9 (0.9)		0.9 (0.9)
3.3 Training			0.9 (0.9)		0.0 (0.9)
4. <u>Income Generation Activities</u>					
4.1 Microcredit and Grant Facility			0.4 (0.4)	0.7	1.1 (0.4)
4.2 Public Works and Environment		0.1 (0.1)	0.4 (0.4)		0.4 (0.4)
5. <u>Miscellaneous</u>					
5.1 PPF			0.4 (0.4)		0.4 (0.4)
5.2 Operating/Recurrent Costs				2.6	2.6
5.3 Support to Demining Agency			0.5 (0.5)	2.4	3.0 (0.5)
Total					54.2
Total Bank-financed					(20.0)

NBF = Not Bank-financed (includes elements procured under parallel cofinancing procedures, consultancies under trust funds, reserved procurement and any other miscellaneous items).

Figures in parenthesis are the amounts to be financed by the IDA credit.

Summary of Actual Procurement Arrangements for APRP
(in USD million equivalent)

<i>Expenditure Category</i>	<i>Procurement Method</i>				<i>Total Cost (including Contingencies)</i>
	<i>ICB</i>	<i>NCB</i>	<i>Other</i>	<i>NBF</i>	
<u>1. Works</u>					
1.1 Reconstruction and Rehabilitation Works	12.4 (12.4)	1.8 (1.8)	- -	26.7	40.8 (14.1)
1.2 Minor Civil Works	-	-	0.1 (0.1)	-	0.1 (0.1)
1.3 Housing and Relocation			- (0.1)	18.0	18.1 (0.1) ¹
<u>2. Goods</u>					
2.1 Equipment and Machinery	1.9 (1.9)	-	0.1 (0.1)	5.3	7.3 (2.0)
2.2 Agricultural Inputs	1.0 (1.0)	-	-	0.3	1.3 (1.0)
2.3 School and Hospital Supplies	0.4 (0.4)	-	0.1 (0.1)	1.5	1.9 (0.5)
2.4 Office Equipment and Supplies				0.1	0.1
<u>3. Services</u>					
3.1 Studies, Project Engineering and Supervision			0.1 (0.1)	0.0	0.1 (0.1)
3.2 Technical Assistance					
3.3 Training			0.1 (0.1)		0.1 (0.1)
<u>4. Income Generation Activities</u>					
4.1 Microcredit and Grant Facility			- (0.0)	3.7 -	3.7 (0.0)
4.2 Public Works and Environment				0.1	0.1
<u>5. Miscellaneous</u>					
5.1 PPF			0.9 (0.9)		0.9 (0.9)
5.2 Operating/Recurrent Costs			0.1 (0.1)	1.2	1.3 (0.1)
5.3 Support to Demining Agency			0.5 (0.5)	7.4	7.9 (0.5)
Total					83.7
Total Bank-financed					(19.5)

*Note: The figures shown in brackets constitute an amount funded by the Bank.
Figures may not add up due to rounding*

Project Components for APRP
(in USD million equivalent)

<i>Component</i>	<i>Total Cost</i>		<i>Bank Financing</i>	
	<i>Projected Cost</i>	<i>Actual Cost</i>	<i>Projected Cost</i>	<i>Actual Cost</i>
Relocation	1.8	1.8	-	-
Shelter	14.0	18.1	-	0.1
Income Generation:				
Agriculture	9.4	11.7	6.0	5.1
Micro credit and grants	1.1	3.7	0.4	0.0
Public works, env. mitig.	0.4	0.1	0.4	-
Health and education				
Health	0.9	2.0	0.9	1.3
Education	4.2	10.1	1.9	4.0
Infrastructure and energy				
Infrastructure	2.4	8.0	0.4	0.1
Energy	12.1	17.7	7.2	6.9
Institutional support				
ARRA	1.6	0.3	1.4	0.1
Agricultural support	0.4	0.4	0.4	0.4
Demining agency	2.9	7.9	0.6	0.5
PPF	0.4	0.9	0.4	0.9
Recurrent costs	2.6	1.2	-	-
Total financing required	54.2	83.7	20.0	19.5

Figures may not add up due to rounding

Annex 2B: Summary of Proposed Procurement Arrangements for SC
(in USD million equivalent)

<i>Expenditure Category</i>	<i>Procurement Method</i>				<i>Total Cost (including Contingencies)</i>
	<i>ICB</i>	<i>NCB</i>	<i>Other</i>	<i>NFB</i>	
1. <u>Works</u>					
1.1 Minor Infrastructure Projects		3.5 (3.5)	3.5 (3.5)		7.0 (7.0)
2. <u>Goods</u>					
2.1 Office Equipment			0.2 (0.1)		0.2 (0.1)
2.2 Vehicles			0.1 (0.1)		0.1 (0.1)
3. <u>Services</u>					
3.1 Technical Assistance			0.4 (0.4)		0.4 (0.4)
4. <u>Income Generation Activities</u>					
4.1 Micro-Enterprise Credits			2.1 (2.1)		2.1 (2.1)
5. <u>Miscellaneous</u>					
5.1 Operating Costs			0.4 (0.3)	0.5	0.9 (0.3)
Total		3.5	6.7	0.5	10.7
Total Bank financed		(3.5)	(6.5)		(10.0)

NFB = Not Bank-financed

Figures in parenthesis are the amounts to be financed by the SC

Summary of Actual Procurement Arrangements for SC
(in USD million equivalent)

<i>Expenditure Category</i>	<i>Procurement Method</i>				<i>Total Cost (including Contingencies)</i>
	<i>ICB</i>	<i>NCB</i>	<i>Other</i>	<i>NFB</i>	
1. Works					
1.1 Minor Infrastructure Projects		0.7 (0.7)	6.5 (6.3)		7.2 (6.9)
2. Goods					
2.1 Office Equipment			0.1 (0.1)		0.1 (0.1)
2.2 Vehicles			0.1 (0.1)		0.1 (0.1)
3. Services					
3.1 Technical Assistance			0.5 (0.5)		0.5 (0.5)
4. Income Generation Activities					
4.1 Micro-Enterprise Credits			2.0 (2.0)		2.0 (2.0)
5. Miscellaneous					
5.1 Operating Costs			0.6 (0.6)	0.6	1.3 (0.56)
Total		0.7	9.7	0.6	11.0
Total Bank financed		(0.7)	(9.5)		(10.1)

NBF = Not Bank-financed

Figures in parenthesis are the amounts financed by the SC

Figures may not add up due to rounding

Project Components for SC
(in USD million equivalent)

<i>Component</i>	<i>Total Cost</i>		<i>Bank-Financing</i>	
	<i>Projected Cost</i>	<i>Actual Cost</i>	<i>Projected Cost</i>	<i>Actual Cost</i>
Micro-Infrastructure Projects	7.0	7.2	7.0	6.9
Micro-Enterprise Credits	2.1	2.0	2.1	2.0
Support to SFDI	0.3	0.2	0.2	0.1
Technical Assistance	0.4	0.5	0.4	0.5
Operating Costs	0.9	1.1	0.3	0.6
Total Financing Required	10.7	11.0	10.0	10.1

Annex 3. Economic Costs and Benefits

Neither APRP nor SC included any formal economic analysis of sub-projects because (a) APRP projects were essentially of an emergency nature and (b) SFDI micro-projects were demand-driven and therefore not identifiable on an ex-ante basis.

Although this cannot be easily quantified, it is important to note that APRP/SFDI created a large number of jobs for IDPs, especially in the construction industry where it was found that, in some cases, up to 90 percent of the workforce was comprised of IDPs. It should also be mentioned that re-establishing access to electric power and rehabilitating irrigation systems provided the basic conditions necessary to resume agricultural and other economic activities in the APRP project areas.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating		
	Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation					
	11/15/1997	2	LEAD ADVISER (1); SR. POWER ENGINEER (1)		
	12/20/1997	4	TEAM LEADER (1); LEAD ADVISER (1); CONSULTANTS (2)		
	02/14/1998	7	LEAD ADVISER (1); SR. POWER ENGINEER (1); ENVIRONMENT SPEC. (1) AGRIC. & RURAL SPEC. (2); CONSULTANTS (2)		
Supervision					
	02/03/1999	5	TEAM LEADER (1); CONSULTANT (1); UNHCR REP (1); PROCUREMENT SPECIALIST (1); OPERATIONS OFFICER (1)	S	S
	12/12/1999	5	TEAM LEADER (1); AG. SPECIALIST (1); OP. OFFICER (1); CONSULTANT (2)	S	S
	11/25/2000	3	URBAN MAN. SPECIALIST (1); SR. SOCIAL SCIENTIST (1); PROCUREMENT SPECIALIST (1)	S	S
	04/26/2002	2	CONSULTANT (1); TASK TEAM LEADER (1)	S	S
	10/02/2002	4	TASK TEAM LEADER (1); CONSULTANT (1); PROCUREMENT SPECIALIST (1); OPERATIONS OFFICER (1)	S	S
	07/09/2003	2	TEAM LEADER (1); OPERATIONS OFFICER (1)	S	S
	11/23/2003	6	MISSION LEADER (1); INCOME GENERATION (1); RESETTLEMENT (2); PROCUREMENT (1); OPERATIONS (1)	S	S
	07/09/2004	4	TEAM LEADER (1); MICRO-CREDIT (1); INFRASTRUCTURE SPCLST (1); OPERATIONS (1)	S	S
ICR					
	02/18/2005	1	CONSULTANT		

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation		527,279.32
Supervision		913,490.38
ICR		27,500.00
Total		1,468,269.70

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<u>Rating</u>				
<input type="checkbox"/> <i>Macro policies</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Sector Policies</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Physical</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Financial</i>	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Institutional Development</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Environmental</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA

Social

<input type="checkbox"/> <i>Poverty Reduction</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Gender</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Private sector development</i>	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Public sector management</i>	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance

Rating

- | | | | | |
|--------------------------------------|--------------------------|------------------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Lending | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Supervision | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |

6.2 Borrower performance

Rating

- | | | | | |
|--|--------------------------|------------------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Preparation | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Government implementation performance | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Implementation agency performance | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |

Annex 7. List of Supporting Documents

1. ARRA Quarterly Report - 2nd Quarter 2004
2. Project Management Report - 1st Quarterly Report
3. SFDI Annual Report for 2003
4. ARRA Activity Report - 1997-2003
5. Project Management Report - 3rd Quarter 2003
6. Justification Reports No. 17
7. Justification and Implementation Report No. 16 - January 1999 - March 2003
8. Project Management Report - 4th Quarter 2002
9. Justification and Implementation Report No. 15 for 4th Quarter of 2002 (January 1999 to December 2002)
10. Project Management Report for 2nd Quarter of 2002
11. 13th Report on Rehabilitation Works (ARRA) - January 1999 to June 2002
12. Progress Report No. 12 - 1st Quarter 2002 (January 1999 to March 2002) and Project Management Review
13. Livestock Advisory and Monitoring Services Report (April to November 2001)- SIGMA Research Center
14. Implementation Report No. 10 (January 1999 to September 2001)
15. Justification Report No. 8 (January 1999 to March 2001 (sites in Nakhchivan AR, Fizuli, Agdam and Terter Regions
16. ARRA Implementation Report No. 6 - Rehab of Agdam, Fizuli and Terter Regions (January 1999 to September 2000)
17. General Information on Activities conducted under ARRA to March 2000

Additional Annex 8. Borrower's Contribution to the ICR

Contribution of the Government of Azerbaijan in ICR - ARRA



Azerbaijan Republic
AGENCY

for Rehabilitation and Reconstruction of Areas

69, Fizuli st., Baku – AZ 1014,
Tel: +994-12-4958840; Fax: +994-12-4957897
E-mail: reception@arra-az.org

« 3 » March, 2006

№ 174

CC.: THE WORLD BANK / AZERBAIJAN

Attn.: Mrs. Saida Bagirli
Acting Country Manager

Subject: Borrower's Contribution to the Pilot Reconstruction Project Implementation Completion Report

Dear Mrs. Bagirli,

With reference to your Letter No. REF/WB/AZ/0061/06 dated January 30, 2006 addressed to the Prime Minister of Azerbaijan Republic, we are pleased to present You our comments and recommendations for the Implementation Completion Report on the Azerbaijan Pilot Reconstruction Project (APRP) prepared by the World Bank, as well as the data on contribution of the Government of Azerbaijan in the APRP.

Please note that we have no serious comments to the World Bank report on the evaluation of APRP and execution of appropriate measures.

In this regard, we would like to express our deep gratitude to all staff of the World Bank for their close participation, namely assistance in solution of all raised issues in the condition of mutual understanding, all directed for successful completion of the Program which is of great importance for the Republic of Azerbaijan.

We wish You all the best in your activities and look forward to collaborating with You in the future.

Encl.: Contribution of the Government of Azerbaijan in ICR prepared by the World Bank and the tables on "Summary of Actual Procurement Arrangements", "ARRA Project Components for Original Credit" and "Monitoring Indicators of the World Bank Project 3109/AZ" – 5 pages.

Sincerely,
Ali Mammadov
/ Director, ARRA

A handwritten signature in black ink, appearing to read 'Ali Mammadov'.

CC.: Mrs. Ellen Hamilton, Task Team Leader, The World Bank

1. Comments on the World Bank's Project Implementation Completion Report

Table 1 shows ARPR Funding Sources and Amounts.

Table 1: ARPR Funding Sources and Amounts

Funding sources	Considered under the Program	<i>In mln. US\$</i>
		Actually executed
	Total	Total in % TotalTotal in %
Government of Azerbaijan *	9,4	179,611,3
The World Bank (IDA)	20	3718,722,3
UNDP	3,2	614,217
UNHCR	12,1	227,28,6
European Union	9,5	1824,829,6
Other institutions	-	-9,411,2
Total:	54,2	10083,7100

* The figures show the amount considered for allocation directly by the Government of Azerbaijan.

2. Contribution of the Government in Execution ARPR

The Government of Azerbaijan participated in execution of ARPR as a Borrower directly and in an active form. As it is seen from Table 1, the fund allocated by the Government directly amounts to US\$ 9,6 mln., that makes 11,3% of the Project overall investment. Furthermore, it should be mentioned that the funds allocated by the Government of Azerbaijan had a specific role in successful implementation (expenses for maintenance of the reconstructed infrastructure facilities) of the Project indirectly.

Considering that the main goal of the general strategy of the Program is to provide the internally displaced people (IDP) with safe and stable life-important facilities, the Government of Azerbaijan executed the following below-listed activities program:

- establishment of necessary institutional systems for safety of people in the project areas;
- the Government's temporal payment of the communal services (electricity and water) expenses of the people relocated in the project areas;
- establishment of a special structure for demining of the areas and execution of other activities in this regard, in accordance with the World Bank requirements;
- execution of encouraging activities for repatriation of IDPs;
- coordination of the activities of other donors for efficient utilization of the funds involved in the Program;
- establishment of a special repatriation structure attached to the State Refugee Committee;

- payment of salaries and facilities maintenance expenses to teachers, physicians and technical staff members in educational and health facilities reconstructed in the project area, and their provision with books, drugs and other necessary things, etc.;
- lending maximum assistance to those people engaged in the agricultural activities in their private farms;
- land reform, distribution of lands to the people for agricultural purposes, assistance in their registration and obtain of the required certificates;
- establishment of the regional offices of the State Land Committee, and the veterinary services for assistance to the farms engaged in cattle-breeding and poultry.

Thus, as a result of the attempts of the Government of Azerbaijan, the shares of the separate structures of the European Union and UNDP in the Program were increased accordingly by 2,5 and 4,5 times. Also, the other donors such as IFRC, MCJ, ADRA, IRC, Relief International and the Islamic Development Bank with its share of US\$ 9,4 mln. were involved in the Project.

The data on contribution of the Government of Azerbaijan in APRP were described in the table on “Monitoring Indicators of the World Bank Project 3109/AZ” enclosed in the letter.

Finally, it should be mentioned that 36000 people returned back to their native lands. 200000 people inhabiting in the project areas benefit from the facilities reconstructed and rehabilitated in these areas.

Contribution of the Government of Azerbaijan in ICR - SFDI

MKSİF

Azərbaycan Respublikasının Məcburi Köçkünlərin Sosial İnkişaf Fondu
Azerbaijan Republic Social Fund for the Development of Internally Displaced Persons

№ 01/ 608.2

25 fevral 2006 il

Dünya Bankının Azərbaycan
üzrə ölkə menecerini əvəz
edən xanım S. Bağırovaya

*Mövzu: «Ərazilərin Bərpa Layihəsinin İcrasının Tamamlanması haqqında Hesabatın
hazırlanmasında Borcaların iştirakı haqqında»*

Hörmətli Səidə xanım !

Məcburi Köçkünlərin Sosial İnkişaf Fondunda (MKSİF) Dünya Bankı tərəfindən hazırlanmış Ərazilərin Bərpa Layihəsinin icrasının tamamlanması haqqında hesabatın layihəsinə aidiyyəti üzrə baxılmışdır və bununla bağlı məlumat Azərbaycan Respublikası Baş Nazirinin müavini, MKSİF-in Müşahidə Şurasının sədri cənab Ə.Həsənova təqdim olunmuşdur.

Baş Nazirin müavini cənab Ə.Həsənov icrası tamamlanmış layihənin nəticələrinin qiymətləndirilməsi barədə hazırlanmış müvafiq məlumatın Dünya Bankına göndərilməsini MKSİF-ə tapşırılmışdır (Baş Nazirin müavini cənab Ə.Həsənovun 17/17/527-27/14Nəli 20.02.2006-cı il tarixli dərkənarı).

Bununla İcranın Tamamlanması haqqında Hesabata Hökumətin qiymətləndirilməsini əks etdirəcək bölmədə nəzərə alınması üçün 3109-1AZNəli Kredit Sazişi çərçivəsində görülmüş layihənin nəticələrinin qiymətləndirilməsi barədə hazırlanmış məlumatı təqdim edirik.

*Qoşma: 3109-1AZNəli Kredit Sazişi çərçivəsində görülmüş layihənin nəticələrinin
qiymətləndirilməsi*

Hörmətlə,
Direktor



F. Topçibaşev



21.02.06

Saida Bagirli
Acting Country Manager
of the World Bank

Subject: "About participation of the Borrower in preparation of the Implementation Completion Report on the Rehabilitation of Areas Project"

Dear Saida!

The draft Implementation Completion Report on the Areas Rehabilitation Project prepared by the World Bank at the Social Fund for Development of IDPs (SFDI) was reviewed and Deputy Prime Minister of Azerbaijan Republic, Chairman of SFDI's Board of Directors Mr. A. Hasanov was provided with the necessary information.

Deputy Prime Minister Mr. A. Hasanov instructed SFDI to submit to the World Bank appropriate information prepared about the appraisal of results of the completed Project (*instructions #17/17/527-27/14 dated 20.02.2006 of Deputy Prime Minister Mr. A. Hasanov*).

We are submitting to you information prepared about the results of the Project implemented under Credit Agreement #3109-1AZ for taking into account in the section of the Implementation Completion Report where reflecting Government's appraisal.

Attachment: Appraisal of the results of the project implemented under Credit Agreement #3109-1AZ

Best Regards.

Director

F. Topchibashev

Appraisal of the Project implemented under Credit Agreement #3109-1AZ

1. Objectives and results of the project

The main objective of the Credit #3109-1AZ (hereinafter **Supplementary Credit**) is raising the living standards of IDPs by carrying out various types of community microprojects and providing microcredit funding.

The Supplementary Credit includes two main components (**microprojects and microcredits**) for achievement of these goals.

It should be mentioned that implementation of the Supplementary Credit was delayed (at the beginning).

The followings were the main reasons of the delay:

A) There was hastiness in preparation of the Supplementary Credit and provisions of the Credit Agreement did not allow SFDI to start the Project on time. In this connection some amendments concerned with the microproject geography, SFDI's operational expenses, opening of the separate Special Account were inserted into the Credit Agreement. Therefore, SFDI started its real works only in May of 2001.

B) Operation Manual of SFDI was prepared in accordance with the traditional Social Investment Funds' practices. But, as the beneficiaries mainly were temporary IDPs communities there was necessity for decrease of the community investment share (*10% for investments and 20% for equipment*) envisaged for implementation of the microprojects. Decrease of the community share was agreed with the World of Bank and approved by the Board of Directors in October of 2001.

C) Implementation of the microprojects and microcredit activities and mobilization of the IDPs communities following the procedures of the Supplementary Credit and Operation Manual took more time that was planned (*for some microprojects representatives of SFDI held 5-6 met with the community representatives*).

In this connection quality of Project in the initial stage could be considered **unsatisfactory**.

Later on reasons of the delay were eliminated by common efforts of the World Bank, Government and SFDI staff and the Project run in normal rhythm.

About 220 microprojects of various types were appraised within the Project and 192 of them meeting the requirements of SFDI's Operational Manual were carried out. The microprojects covered 26 regions and 4 central cities of the country. About 170 thousand persons which 93% are IDPs benefited from the implemented microprojects.

SFDI implemented the microcredit program through the competitive-based selected partner lending institutions (*five international Microcredit Institutions and seven local Credit Unions*). Microcredit institutions delivered microcredits in amount 2 million USD (*12 357 credits were provided to the physical persons and juridical entities*).

The procedures used by SFDI in implementation of microprojects within the Supplementary Credit were used in the programs of other donors as well. 6 microprojects (*five schools were constructed and one water supply system was rehabilitated*) were carried out through the grant funds provided by the well-to-do persons of Turkey to the Embassy of Azerbaijan Republic in Turkey and later on transferred to the account of SFDI. Though the grant funds transferred to

the account of SFDI by Republic of Greece a modern ambulance station was constructed.

Taking into account the above mentioned outcomes and achievements level within the **Supplementary Credit** project could be considered **high satisfactory**.

2. Administrative structure of the Project

SFDI staff gained considerable experience in the project implemented within **Supplementary Credit**.

There were the innovation characters of the **Supplementary Credit** project as well. So, the Board of Directors of the SFDI as a supreme governing agency was created and this Board of Directors comprises of the representatives of Azerbaijan Government, local non-government and private organizations and international donor organizations including UNDP, UNHCR and USAID authorities. The SFDI staff reports regularly to the Board of Directors on their activity covering all aspects. This ensures high transparency of the SFDI activity.

Achievements gained in institutional building have been significant and appreciated **high satisfactory**.

3. Working indicators of the World Bank and the Borrower.

3.1 The World Bank

The World Bank representatives (*including Baku office staff*) regularly supervised the Project, demonstrated sufficient reaction to obstacles arisen during the project implementation and took an active part in overcoming those obstacles.

In this regard the whole activity of the World Bank is considered **high satisfactory**.

3.2 The Borrower

The Government's active participation in the project implementation has been considered **high satisfactory**.

3.2 The SFDI

Considering the experience and practice of SFDI gained during the project the Government of Azerbaijan has charged the SFDI as an executing agency, with the functions realizing the number of state programs on construction of new settlements for IDPs.

Taking into consideration the successful completion of the project within the **Supplementary Credit** the SFDI has been appointed an executing agency on new # 4034 AZ Credit Agreement (*Project of Economic Development Support to IDPs*) signed between the World Bank and the Republic of Azerbaijan.

4. Lessons learned

Overall building of the programs financed by the various donors.

During implementation of the project under **Supplementary Credit** the SFDI was engaged in carrying out the state programs financed by other donors as well, creating the special

implementation units. During implementation of these programs the SFDI agreed various procedures and rules applied by these donors, though the Operational Manual of SFDI describes only the procedures under WB financing projects.

At the same time it should be noted that notwithstanding the involving of individual implementation unit for realization of the new project financed by each potential donor the responsibilities of the key staff under the WB project regarding the coordination matters are increased.

In this respect new version of the SFDI's Operational Manual capable to consider the expansion of the SFDI's activity and new donors' procedures has been prepared and approved at the meeting of Board of Directors in October of 2005.

