2. Project Objectives and Components:

a. Objectives:

The project objectives as stated in the Development Credit Agreement were to "reduce poverty, improve living standards and increase use of infrastructure services in rural communities of the Borrower" (Schedule 2, p. 15). As stated in the Project Appraisal Document (p. 2, 23) the objective of the project was "for households in rural communities completing micro-project investments to improve living standards and increase the use of infrastructure services".

The Additional Financing Paper (p. 3) stated that objective of the additional financing would remain the same as for the original project (as described in the PAD) although it is proposed to revise the wording to strengthen the results framework. The re-worded objectives were: improved living standards and increased use of infrastructure services for households in rural communities completing micro-projects." This was approved by the Board on March 3, 2008.

For this review, the Development Credit Agreement objectives will be used as the original objectives and revised objectives will be taken from the Additional Financing Paper.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

If yes, did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval: 03/03/2008

c. Components:

A. Infrastructure (appraisal cost US$14.6 million; actual cost US$33.3 million). This component would fund grants for approximately 350-450 rural infrastructure micro-projects. Potential areas of investments are: economic (rehabilitation of secondary roads, water systems, electricity transformers) and social (schools and health clinics)
Infrastructure.
The average size of micro-projects was US$35,000. Micro-projects over US$50,000 would require prior review by IDA and the project Working Group.

Eligible recipients are municipalities, community based organizations (CBOs) including non-governmental organizations (NGOs) registered as legal entities, or any other associations and organizations that IDA and the Borrower agree upon (the recipient is defined as the organization in the community that executes the micro-project. Investments would be identified in consultation with communities, prioritized through local participatory planning processes, and appraised according to technical, financial, social, economic, institutional, and environmental criteria set out in the Operational Manual. Generally, recipients would be responsible for all phases of the micro-project, including preparation of the proposal, contracting, implementation, and operations and maintenance. As needed, local NGOs and CBOs or other service providers will provide support. Training needed at the community level will be built into the micro-project cycle and financed by the capacity enhancement component.

B. Capacity Enhancement (appraisal cost US$5.1 million; actual cost US$7.8 million). This component would fund training and technical assistance for project implementation. Training would be provided to local stakeholders, e.g. communities, recipients, and Regional Grant Approval Committees (RGACs) in the following areas: contracting, procurement, financial management, and participatory monitoring and evaluation. This component would also support capacity building of the staff in the Project Management Unit and the three Regional Operations Offices through management, planning, on-the-job and other training, consultations, lessons learned workshops.

C. Project Management: (appraisal cost US$1.4 million; actual cost US$6.1 million). This component would finance the administrative, project implementation and management costs, including hiring of the Project Management Unit professional and support staff, Regional Operational Offices support staff, travel cost and per diem, and support to the Regional Grant Approval Committee. The ICR does not provide an explanation on the fourfold increase in costs for this component.

Revised Components:
The scope of the project and the financing ceiling of the micro-projects was revised under Additional Financing. Following changes were made in the components:

A. Infrastructure. In the face of stronger demand than expected an additional 250 micro-projects were included in 24 new districts. The micro-project ceiling was raised from US$50,000 US$85,000, to allow for cost increases (PAD mentioned a ceiling of 35,000 and special approval from the working group for projects 50,000 and above). This increased the maximum cost per beneficiary from US$18 to US$22 (these increases are equivalent to the inflation index since implementation began), and the cash contribution was lowered from 5% to 2% to allow more of the cash strapped poor to participate.

B. Capacity Enhancement. No change.
C. Project Management. No change.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Costs: The actual project costs was US$47.1 million compared to the original appraisal cost of US$21.1 million.

Financing: Both the original IDA Credit of US$15 million and the PHRD Grant were fully disbursed by the original closing date. Before Additional Financing, the project was completed five months prior to the original date of project completion (May 2009).

An Additional Financing of US$15 million was approved on March 3, 2008 for scaling-up project activities. The reasons for additional financing were: (i) the project was one of the few vehicles available to address rural needs as determined by the communities themselves; (ii) living conditions in rural areas remained poor due to lack of employment opportunities and infrastructure, and access to social services; and (iii) demand from rural communities had been consistently strong.

All IDA additional funds were fully disbursed (out of $15 million IDA funds $14,668,537 was disbursed and $331,463 was an exchange loss).

Borrower contribution: The Borrower actual contribution was US$10.3 million, substantially higher that the appraisal commitment of US$1.35 million. The reason for the much higher Borrower contribution is that initially the introduction of an unfamiliar model of community-driven development was perceived as risky by a number of government officials. However, as things picked up, and success stories were told through a number of media, and local and rayon government officials became active, stakeholders and the Government contribution increased substantially.

Dates: The project was completed five months prior to the original date of project completion (March 2009). The completion date for the Additional Financing was March 2012 when the project closed on time.
3. Relevance of Objectives & Design:

a. Relevance of Objectives:
Relevance of original and revised objectives: substantial.

As pointed out in the most recent Country Partnership Strategy (CPS) for Azerbaijan for FY11-14, the CPS was prepared under the circumstances of a rapid increase in income and decrease in poverty, but also the global economic crisis from which the country emerged relatively well (CPS p. i). The drivers of growth and poverty reduction that served the country well in the recent past may not be available in the future, and the post-crisis world offers new challenges. The CPS therefore proposed a two pillar strategy of: (i) building a competitive non-oil economy; and (ii) strengthening social and municipal services, with a strong cross-cutting theme of governance and anti-corruption.

The project objectives remain consistent with "Results Area 4" of the CPS which aimed at providing "improved social and municipal services" through improved access to rural infrastructure. The strategy emphasizes comprehensive efforts to support rural communities by identifying and supporting the highest priorities and supporting local infrastructure. It noted that rural infrastructure projects have a high impact in employment generation (CPS p. 25).

The life of the project was covered by three CPS documents. Despite differences in focus the key elements relevant to this project remained intact throughout: (i) the need to use oil revenues in pro-poor rural growth; and (ii) the need to address issues of rural infrastructure that raise transaction costs for rural people, while making rural areas unattractive for the private sector.

The project objectives of improving the living standards and increase use of infrastructure services in rural communities were consistent with the Azerbaijan's State Program on Socio-Economic Development (SPSED) 2004-2008 which called for comprehensive regional development measures that included improvement of infrastructure and utility service provision, especially in rural areas and small districts. The program emphasized the need to increase local responsibility in managing infrastructure and utility service delivery, as large, government funded and implemented infrastructure programs were no longer considered an option (ICR p.1).

b. Relevance of Design:
Relevance of original and revised design: substantial.

The project’s design was directly relevant to achieving its objectives and there was a solid causal link between inputs and outputs. It included infrastructure component which aimed at providing grants for investments in economic (rehabilitation of secondary roads, water systems, electricity transformers) and social (schools and health clinics) infrastructure. This would benefit over 1.8 million people in rural communities. It also included components to develop capacity of local stakeholders as well as Regional Operations Offices.

The ICR notes (p.4) that the piloting under the project helped work out the micro-project implementation process and provide hands-on training to the staff of the Project Management Unit and the Regional Operational Offices in Operational Manual procedures. With only two major components, the structure of the design was relatively simple, although CDD approaches, calling for community participation and local administration response and interaction, are rarely simple in practice.

However, the linkage between indicators and achievement of objectives was not always clear (see section 10 a below).

4. Achievement of Objectives (Efficacy):

The original objectives of the project were to reduce poverty, improve living standards and increase use of infrastructure services in rural communities of the Borrower.

The reworded Additional Financing objectives were to improve living standards and increased use of infrastructure services for households in rural communities completing micro-projects.

### Outputs

<table>
<thead>
<tr>
<th>Table: Number of Beneficiaries and micro-projects financed by the Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>750,000</td>
</tr>
<tr>
<td>Total micro-projects</td>
</tr>
</tbody>
</table>
The breakdown of micro-projects actual investments for the entire project, are as follows: road rehabilitation (52%, 333 micro-projects), potable water (17%, 108 micro-projects), electricity (10%, 63 micro-projects), irrigation (6%, 40 micro-projects), health clinics (5%, 34 micro-projects), drainage (5%, 29 micro-projects), schools (4%, 28 micro-projects), community renovation (1%, 5 micro-projects) and pedestrian bridges (0.3%, 2 micro-projects).

Out of 717 communities mobilized, 642 communities actually received grants. 114 communities were declined at different stages of micro-project cycle for different reasons. 47 communities were declined during mobilization due to their lack of readiness; 54 were declined at time of training (because of low attendance or lack of interest to proposed topics). Other communities were declined after the Cooperation Agreement was signed as they failed to collect a sufficient community cash contribution. 13 of the declined communities later collaborated with the project.

Outcomes
Reduce poverty: modest.
- The ICR reports that the original beneficiary contribution requirement of 10 percent of micro-project cost with at least five percent in cash often proven difficult for poor communities, resulting in needy communities dropping out of the program (p. 30). One of the reasons justifying Additional Financing was ongoing poverty in the project areas that the project itself intended to reduce. With Additional Financing, the cash contribution was lowered to two percent, while the minimum 10 percent beneficiary contribution remained in force. The ICR does not provide data on number of poor beneficiaries served by the project.
- The ICR reports that poverty is lower in project villages. At the time of the baseline 14% of households in the project area were below the internationally recognized poverty line. At evaluation that had improved to only 9%. In the control villages the percentages were 15 and 13 respectively (ICR p. 20).
- The ICR reports that the project created over 13,000 person-months of jobs in civil works. However, it does not report how many of these jobs were for the poor. The rural poor received more than $6.5 million equivalent in wages (ICR p. 11).

Improve living standards: substantial.
- The ICR reports that economic welfare has slightly improved across the region over the life of the project, but the rate of improvement is higher in the project villages than the control villages. It further reports that the rate of income increase in the project villages is higher than in the control villages. The financial situations of beneficiaries have slightly improved, with the rate higher in project villages than in control villages (ICR p. 14). However, it provides no evidence or underlying data to support this claim. The Project was named one of the 12 winners in the annual competition ‘Improving the Lives of People in Europe and Central Asia’ (June 2010) awarded by the World Bank.
- Thirty communities rehabilitated irrigation systems, benefitting over 700,000. The ICR reports that the average productivity increased by roughly 30% and added more than US$ 1 million to the value of production in project areas (ICR p. 69). Weighted average productivity has increased by 46% for potato, 40% for maize, 38% for cotton and 31% for wheat. The cost-benefit analysis of community micro-projects was carried out by an independent consultant in 2010.
- At project closure 80% of farm products were being brought to markets by farmers themselves (18% in non-beneficiary areas). Prices of crops paid to farmers have increased on average by 20% in project areas. The crops and livestock prices showed significant price increases (in both inflation unadjusted and inflation adjusted scenarios) due to better roads. The inflation unadjusted price increase ranged from 14% to 49% and the inflation adjusted price increase (adjusted by the consumer price index) ranged from 12% to 41%. This increase is due to the fact that the farmers could move their produce to the nearest wholesale market or could sell their directly to the people in the nearby towns (ICR p. 59).
- ICR tables show that the household members with some sort of water-borne disease declined from the 2009 baseline 80% in the project areas to 7% at the 2011 evaluation compared to 81% and 53% respectively in non-project villages.
- Inadequate and infrequent water provision declined from a baseline of 49% in the project areas (assumed to be the most needy) to 25% at evaluation, compared to a slight increase from 70% and 74% respectively in non-project villages (assumed to be less needy).

Increased use of infrastructure: high.
- About 1.2 million people in 431 communities have benefited from a total of approximately 1,300 kilometers of new or reconstructed roads. The condition of rural roads has improved for over 640,000 people in 200 communities, with improved access to schools and clinics. People in project villages save between a quarter and a third of their time going to a primary school, a secondary school, or a clinic. Time taken going to a hospital, a transportation hub, or a marketing point was reduced by half.
- Nineteen communities rehabilitated primary schools, and school enrollment in beneficiary communities...
increased from 34 percent (baseline) to 98 percent (evaluation), benefitting more than 50,000 school boys and girls. Time taken to go to secondary school decreased from 15 minutes (baseline) to 10 minutes (evaluation),

- Seventy-one communities rehabilitated potable water supply systems, and 150,000 rural people in the previously worst served communities had access to safe drinking water by the end of the project.
- Home treatment declined from baseline 68% in the project areas to 34% at evaluation compared to 74% and 68% respectively in non-project villages.

Note: The baseline survey was done in 2009 and the evaluation surveys were done in 2011.

5. Efficiency:

Ex-ante economic analysis was completed for a typical investment in a rural drinking water supply system for 700 households involving a project investment of US$ 79,200. The investment consist of an artesian well with a small piped system targeting households that used water from spring, rivers, lakes or canals. The economic rate of return (ERR) for a rural drinking water supply system was 15.7 percent (PAD p. 12). The ex-post ERR ranged from 23.7 percent to 45.8 percent depending on the type of infrastructure. The ERR for health clinic construction was 23.7%, road rehabilitation was 27.1%, portable water 28.8%, and irrigation 45.8%.

The community based approach proved to be cost effective in building rural infrastructure, improving rural livelihoods and creating jobs. The project rehabilitated rural infrastructure by implementing 642 community micro-projects with the overall project budget of US$ 30 million, or at an average cost of about US$ 45,000 per micro-project. According to the ICR (p. 19), this is significantly less than the cost of comparable infrastructure projects implemented by other organizations.

The investment cost for a typical road rehabilitation micro-project was about manat (AZN) 40,845, for a typical potable water micro-project was about AZN 49,744, for a typical health clinic micro-project was about AZN 39,518, and for a typical irrigation micro-project was about AZN 44,900.

There was a four fold increase in the project management cost which increased from US$ 1.5 million at appraisal to US$6.1 million (actual).

The external technical audit and technical sustainability assessment of the selected micro-projects confirmed that the quality of works and of materials used was satisfactory and according to the designs, with no significant deficiencies (ICR p. 27).

Overall, the project efficiency is rated substantial.

### a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

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<th>Rate Available?</th>
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<tr>
<td>ICR estimate</td>
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</table>

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Project outcome under the original objectives (based on 50% of credit disbursements): Satisfactory. The relevance of the original objectives and design, and efficiency is rated substantial. Overall efficacy is assessed as substantial. The project substantially improved the living standards and increased the use of infrastructure. The poverty impact was modest.

Project outcome under the revised objectives (based on 50% of credit disbursements): Satisfactory. The relevance of the original objectives and design, and efficiency is rated substantial. Overall efficacy is assessed as substantial as the project substantially improved the living standards and increased the use of infrastructure.

Applying OPCS/IEG methodology of evaluating restructured projects with changed objectives (outcome is first rated against original PDO and revised PDOs; overall outcome rating is a weighted average of two ratings based on disbursement rate at the time of restructuring), outcome rating both before and after restructuring is Satisfactory, overall outcome is assessed as Satisfactory.

**a. Outcome Rating:** Satisfactory
7. Rationale for Risk to Development Outcome Rating:

The ICR (p. 15-16) reported that at project closing well over 90% of the rehabilitated infrastructure was operational, with some communities hiring third parties to oversee repairs and maintenance. Also, communities and local governments mobilized their own resources for maintenance of infrastructure rehabilitated under the project. Municipalities and the central government mobilized $800,000 for the operation and maintenance of rehabilitated infrastructure.

**a. Risk to Development Outcome Rating**: Negligible to Low

8. Assessment of Bank Performance:

**a. Quality at entry:**

The project design was based on lessons from CDD projects in the region, namely four pilot micro-projects on infrastructure development that the World Bank and the Eurasia Foundation supported in Azerbaijan. Twelve risks were identified at appraisal and overall risk rating was "modest". Three risks were rated as substantial: (i) non-transparent selection of participating grantees (this refers to lead capture); (ii) ineffective Regional Grant Approval Committees; and (iii) slow review and approval of proposals by the Working Group and Regional Grant Approval Committees. These risks were underestimated. The ICR (p. 7) reports that the monitoring of implementation for consistency with the Operational Manual guidelines by the Project Management Unit (with support from World Bank Supervision) mitigated these risks.

The project was ready for implementation when approved: the Project Management Unit and the Regional Operational Offices were staffed; and the Operational Manual and initial implementation plans were prepared (by the end of the first year six pilot micro-projects were completed). The Operational Manual included quantitative and qualitative criteria for selection of micro-projects according to technical, financial, economic, environmental and social criteria (PAD p. 4).

The project was included in the Quality Assurance Group's (QAG) Second Quality Assessment of the Lending Portfolio (June 2010). QAG concluded that the Quality of Design was satisfactory, with all dimensions of design (strategic relevance and approach, realism of project design and risks, and fiduciary, safeguards and GAC aspects) being satisfactory (ICR p. 7). QAG cited following aspects of the project:

- Good balance between the capacity building and the infrastructure investment components,
- Good decision to start in a few regions/provinces to establish the program and operating mechanisms, pilot and fine-tune before expanding to new regions/provinces (the original credit started in three areas, two more areas were included in the additional financing),
- Created a well defined institutional framework that responded to the capacity and limitations of the various levels of government (central, municipal, communities themselves).

The Bank invested heavily on preparation, about US $485,000.

**Quality-at-Entry Rating**: Satisfactory

**b. Quality of supervision:**

The Project team provided continuous support and frequent supervision missions helped develop the capacity and procedures that allowed smooth implementation of the project. Supervision was conducted regularly (12 times between effectiveness and closing) and at times intensively. In FY 07 the supervision expenditures exceeded US $220,000, which is twice the annual norm. The Bank organized several training programs in Baku and Tbilisi on procurement. The Task Team also provided support on Financial Management. The project’s Financial Management staff capacity was also developed through training.

Despite significant turnover of staff (in total five Bank Task Team Leaders), project continuity was assured through continuous support to the Project Management Unit. The Bank Task Team was always in contact not only with PMU but also with the project beneficiaries and made regular visits to the communities to assess current project activities impact on the end users and beneficiaries and improve programmatic requirements of the project (ICR p. 74). The Borrower Completion Report notes that in some cases the submission of Aide Memoirs to the Government were delayed by the Bank, which caused challenges for the Project Management Unit. The Borrower Completion Report goes on to say that the Project Management Unit had no problems in getting “No Objections” from the Bank during 2006-2012.

QAGs Second Quality Assessment of the Lending Portfolio (June 2010) concluded that supervision was satisfactory. QAG highlighted following aspects of supervision: (a) Task Team was proactive and identified, flagged and sought solutions to issues in a timely manner; and (b) very strong focus and interesting efforts to
address micro-project “sustainability” issues (ICR p. 25).

**Quality of Supervision Rating:** Satisfactory

**Overall Bank Performance Rating:** Satisfactory

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**9. Assessment of Borrower Performance:**

**a. Government Performance:**

The Government was fully committed to the project, expanding it to 24 new districts through Additional Financing. There were two delays in effectiveness (6 months for the original project, and 14.5 months for the Additional Financing). These delays were caused by poor communication and collaboration between a number of Government bodies (including the Office of the President, the Cabinet of Ministers, and the Ministries of Finances, Agriculture, and Economic Development). The Government’s actual contribution was US$ 10.3 million, substantially higher than the appraisal commitment of US$ 1.35 million. The reason for the much higher Borrower contribution is that initially the introduction of an unfamiliar model of community-driven development was perceived as risky by a number of government officials. However, as things picked up, and success stories were told through a number of media, and local and rayon government officials became active stakeholders and the Government contribution increased substantially.

**Government Performance Rating** Satisfactory

**b. Implementing Agency Performance:**

According to the ICR (p. 7) the project was ready for implementation at approval. The Project Management Unit (PMU) and the Regional Operational Offices were satisfactorily staffed. The Operational Manual and initial implementation plans were prepared. By the end of the first year six pilot micro-projects were completed. Potential beneficiary communities were made aware of the project through a mass media campaign. Initially, there were some delays in the procurement of service providers, the development of the management information system and in the submission of the M&E reports. The Project Management Unit (PMU) rectified the causes of these problems. The PMU hired, on a competitive basis, local private design companies. The design companies supported community engineers in designing micro-projects, supervised vendors for the implementation of micro-projects, developed suitable maintenance plans and helped communities with implementation. All these steps resulted in a significant increase in technical quality of the implemented micro-projects as well as more rapid processing of requests (ICR p. 4). The PMU and the Regional Operational Offices complied with the recommendations of the supervision missions and the mid-term review to expedite project implementation (ICR p. 4). The recommendations were: (i) improve the technical quality of the micro-projects, (ii) ensure better sustainability, (iii) strengthen environmental supervision, (iv) provide communities with the tools to apply an economic analysis to their planning, and (v) streamline financial management.

Where the capacity to implement community driven projects was low, local NGOs facilitated the process by assisting the municipalities in mobilizing communities, setting-up micro-project committees, and providing training to both the committees and the municipalities. The communities were provided five-day training which covered the following topics: (i) General Information; (ii) Institutional Management; (iii) Proposal Development; (iv) Community Contracting and Procurement; and (v) Environmental Awareness. During implementation, Project Assistance Teams (PAT) were established to provide community mobilization and training services to the Regional Operational Offices. The Project Management Unit hired the individual consultants for PAT.

To comply with environmental safeguards, the Project Management Unit hired an environmental specialist from the very beginning of the project implementation to ensure that the environmental management provisions were duly implemented. Environmental monitoring visits were carried out by the Environmental Specialist at least once a month and covered both sub-project identification and implementation phases. Environmentally sensitive micro-projects were also visited during implementation to ensure environmental compliance. The environmental training package was prepared and regional environmental workshops were held to raise the awareness and capacity of community members on environmental issues.

External technical audit and technical sustainability assessment of the selected micro-projects were carried out. These audits reported that the quality of works and of materials used was satisfactory and met design standards with no significant deficiencies reported.
10. M&E Design, Implementation, & Utilization:

a. M&E Design:
   The PAD included three performance indicators: (i) increased household access to and use of local infrastructure; (ii) improved operation and maintenance of local infrastructure services; and (iii) increased participation of project beneficiaries in investment decision making and implementation. Except for the first indicator, the other two indicators were indirectly connected to monitoring project outcomes of reducing poverty and improving living standards. The PAD did not provide baseline data for these indicators, a significant shortcoming of an M&E system.

b. M&E Implementation:
   The project was late in conducting a baseline survey which was only done in 2009, which was the original closing year of the project. The beneficiary evaluation surveys were carried out by a consultancy company (Western World Consultants, Canada) hired by the project. The surveys included the Baseline and Evaluation Surveys, Focus Groups and Special Studies.
   The Special Studies were carried out to assess impact of the road rehabilitation, potable water supply, small scale irrigation, and school and clinic construction micro-projects. The evaluation survey was primarily done through a household survey, based on stratified random sampling. There were 15,000 sample households surveyed in total (7,500 sample households for project villages and 7,500 sample households for control villages).
   Monitoring and collection of data were carried out through a variety of approaches with active participation of community members, including community meetings and interviews, community action plans, focus group discussions and informal group discussions. The participatory monitoring dimensions included use of community score cards and village resource maps. There was comprehensive use of Participatory Rural Appraisal Methodologies to assess the needs and possible solutions of problems of communities with wide involvement of community members in the selection, decision making and monitoring process.

The ICR does not comment on the quality of data collected.

c. M&E Utilization:
   The ICR reports (p. 8) that M&E progress reports were prepared in a timely manner and M&E results were integrated in quarterly reports by an M&E specialist of Project Management Unit and were made available to management and supervision missions teams with a summary of key indicators. The methodologies and findings of the project will be used in the ongoing Second Rural Investment Project.

M&E Quality Rating: Substantial

11. Other Issues

a. Safeguards:
   Environmental Safeguards
   The project was classified as a financial intermediary operation, given that it provided financing for community driven micro-projects. Individual micro-projects could not be identified prior to appraisal. Therefore, rather than carrying out an environmental assessment as part of project preparation, a mechanism for screening sub-projects for their environmental impact was included in the Operations Manual.
   According to the Integrated Safeguards Data Sheet (p.3) no major environmental issues were associated with the activities proposed under the project. Many of the micro-projects were expected to produce environmental benefits (for example reduction in erosion through proper road rehabilitation or small-scale wastewater treatment). However, because the individual micro-projects were not identified up front, there could be unforeseen environmental impacts during implementation. The Operational Manual provides details for environmental screening and assessment of micro-projects and project sites. An Environmental Management Plan (EMP) was prepared by the Borrower prior to appraisal and is included as a chapter of the Operational Manual. The EMP provides guidance to project participants regarding screening prior to selection of micro-projects for financing, identification of potential environmental impacts.
of the likely micro-projects to be financed, planned mitigation measures, identification of parties responsible for mitigation, and a monitoring plan to track compliance with sound environmental management practices during construction and operation of micro-projects. The Project Management Unit would be responsible for ensuring that environmental management and mitigation plans are fully implemented. Environmental assessments will then be carried out for specific sub-projects and/or project sites as appropriate.

The safeguards policies applicable were: Environmental Assessment (OP 4.01) and Projects in International Waters (OP 7.50).

Under the infrastructure component of the project, micro-projects are likely to be developed inter alia on rivers flowing into the Caspian Sea, which is an international waterway for purposes of the World Bank's Operational Policy on Projects on International Waterways (OP 7.50). The Government accordingly notified the Caspian riparians about the project on March 18, 2004, with a request for any comments to be received by May 20, 2004. The ICR does not provide details about what happened later.

The ICR (p. 25) reports that safeguards supervision was satisfactory. The Project Management Unit (PMU) and the State Agency on Agricultural Credit ensured compliance with social and environmental safeguards (ICR p. 27). The PMU involved an environmental specialist from the very beginning of the project implementation to ensure that the environmental management provisions were duly implemented. Environmental monitoring visits were carried out by the Environmental Specialist at least once a month and covered both sub-project identification and implementation phases. Environmentally sensitive micro-projects were also visited during implementation to ensure environmental compliance. The environmental training package was prepared and regional environmental workshops were held to raise the awareness and capacity of community members on environmental issues.

The ICR, however, did not provide details on safeguard compliance. The project team confirmed that all Bank Safeguards were complied with.

b. Fiduciary Compliance:

The financial management arrangements were adequate and acceptable to the Bank (ICR p. 9). Internal control procedures were put in place and the Project Management Unit periodically conducted reviews of sample transaction and very few issues were observed. The quarterly interim financial reports and annual audit reports were submitted in a timely manner and were acceptable to the Bank. The ICR does not have any information on qualifications in the audit reports.

The procurement procedures were in accordance with the Bank’s procurement guidelines (ICR p. 9). Comprehensive procurement plans were prepared, shared with the Bank, and updated on a regular basis. The Bank staff carried out prior and ex-post review of the procurement process, reviewed and cleared procurement documents, contract awards, and amendments as per the provisions of the Credit Agreement. Some minor procurement discrepancies were identified during the procurement reviews. These were successfully sorted out by the Project Management Unit.

c. Unintended Impacts (positive or negative):

In addition to the $20 million in project funds, a number of communities and local governments mobilized their own resources to expand (or sometimes maintain) the infrastructure built under the project, amounting to a total of US $1.77 million. There are number of examples where completion of community projects triggered local resources to enhance project impact. For example, municipal or rayon governments often contributed health equipment when health posts were rehabilitated.

The project also generated about US$ 27 million in additional investments from the government, municipalities and donor organizations to improve rural infrastructure. Communities had 1219 additional small scale projects funded entirely by the communities or municipalities, with 110 funded fully by donors and 340 more supported financially by the government.

d. Other:
None.

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<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
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<td>Outcome:</td>
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<td>Risk to Development:</td>
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Borrower Performance:

<table>
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NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:
The following lesson is drawn from the ICR (pp. 27-28), with adaptation:
Dissemination of a Community-driven development type micro-projects particularly by the beneficiaries themselves (using mass media) can bring in complementary investments. Additional funding from private citizens, local municipalities, line ministries represented locally, non governmental organizations, and donors inspired by the performance of the project can enhance outcomes.

14. Assessment Recommended?

- [ ] Yes
- [x] No

15. Comments on Quality of ICR:
The ICR is written in a clear and analytical manner and provides relevant information and data. The lessons are based on evidence. It covered all of the required aspects of project preparation, appraisal and implementation, providing sufficient information for IEG to conduct this assessment. The ICR, however, did not provide sufficient details on safeguard compliance. The Borrower ICR provided valuable insight into the implementation experience. The assessment of Bank Performance was candid.

Quality of ICR Rating: Satisfactory