



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
IDP LIVING STANDARDS AND LIVELIHOODS PROJECT  
APPROVED ON OCTOBER 27, 2011  
TO  
REPUBLIC OF AZERBAIJAN

SOCIAL, URBAN, RURAL AND RESILIENCE GLOBAL PRACTICE

EUROPE AND CENTRAL ASIA

Regional Vice President:	Cyril E Muller
Country Director:	Sebastian-A Molineus
Regional Director:	Steven N. Schonberger
Practice Manager/Manager:	Kevin A Tomlinson
Task Team Leader:	Robert Wrobel, Nijat Valiyev



## ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AZN	Azerbaijani Manat (as of July 18, 2019, 1 AZN = 0.6 USD)
CD	Country Director
EA	Environmental Assessment
GoA	Government of Azerbaijan
IBRD	International Bank for Reconstruction and Development
IDP	Internally Displaced Person
MoF	Ministry of Finance
SFDI	State Fund for the Development of IDPs
PDO	Project Development Objective
RF	Results Framework
USD	United States Dollar
VAT	Value Added Tax



**Note to Task Teams:** The following sections are system generated and can only be edited online in the Portal.

**BASIC DATA**

**Product Information**

Project ID P122943	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 27-Oct-2011	Current Closing Date 31-Dec-2020

**Organizations**

Borrower Republic of Azerbaijan	Responsible Agency Social Fund for Development of IDPs (SFDI)
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**Project Development Objective (PDO)**

Original PDO

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

**Summary Status of Financing**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-86270	17-Jun-2016	23-Jun-2016	12-Sep-2016	31-Dec-2020	66.70	15.50	51.20
IBRD-80960	27-Oct-2011	16-Nov-2011	09-Feb-2012	31-Dec-2016	50.00	50.00	0



### Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

### A. Status

- Progress in achieving the Project Development Objective (PDO) of the IDP Living Standards and Livelihoods Project is mixed.** The parent Project recorded satisfactory ratings in implementation progress and towards achieving its PDO, and disbursed 100 percent of the total IBRD loan of US\$50.00 million by late 2016. Achievements under the parent Project included the following: 240,000 IDPs benefited from over 300 community subprojects, including, among others, water, drainage, irrigation, and road rehabilitation in communities in which large numbers of IDPs settled; 103 collective centers (i.e. public buildings used as residential areas for IDPs) were renovated; and 6,200 IDPs gained employment—over half of whom (3,601) were women—and 1,862 beneficiaries gained access to microcredit that was used to initiate entrepreneurship activities. The Additional Financing (AF), effective since September 2016, has so far disbursed 20 percent (US\$13.50 million) of the US\$66.70 million loan amount. In its first year of implementation the AF project was also on track to achieve its PDO. Between September 2016 and October 2017, it completed 51 micro-projects to improve community infrastructure and services: 49 under Component A, and two under Component B. Under Component C, the youth support sub-component provided vocational training to 833 youth and pre-selected a second batch of 833 beneficiaries. The income generation sub-component trained and delivered small grants to the first batch of 134 income generating groups with a total of 1,387 beneficiaries, 71 percent of whom are women. However, as of October 2017, Project implementation ground to a halt due to lack of counterpart co-financing (described further below), and did not restart until March 2019 when government co-financing was approved again. As a result, the overall progress towards achieving PDO lags behind original projections.
- Project ratings are currently Moderately Unsatisfactory for both PDO achievement and implementation progress.** In 2017 and 2018 the project did not receive sufficient Government co-financing: in 2017 there was a shortfall in co-financing of US\$1.05 million, and in 2018, of US\$4.90 million. Government co-financing is used primarily to cover VAT expenses in the purchase of goods and services, which are ineligible expenditures under the terms of the Loan Agreement. The shortfall in Government co-financing meant that no payments to vendors could be completed (although payments for SFDI staff salaries continued). The lack of counterpart financing affected all areas of project performance, including: (i) the accumulation of arrears to vendors for construction and consultancy services delivered in the amount of AZN 9.30 million (US\$5.48 million equivalent); (ii) extended delays in procuring financial audits for the 2017 and 2018 calendar years; (iii) disruption of the randomized control trial impact evaluation of the project's livelihoods component initiated with technical assistance from the Bank's Development Impact Evaluation (DIME) group, which could no longer be conducted due to the lag in implementation and the uncertainty over whether future batches of beneficiaries would receive project assistance; and (d) limited field supervision from SFDI staff. Furthermore, no new project activities were initiated



after October 2017 and certain activities were curtailed mid-way through implementation. Specifically, civil works on six micro-projects under Component A, and seven micro-projects under Component B were stopped soon after they had been initiated. The delivery of tools, equipment, and technical assistance to 833 youth beneficiaries, who completed vocational training, was delayed to November 2019 as the purchase of tools and equipment and payment of consultants required payment of VAT. Small grants and assistance have not been provided as expected to the second batch of 133 income-generating groups, who were mobilized and registered as Limited Liability Corporations (LLCs) under Component C, due to the Government of Azerbaijan's (GoA) cancellation request. SFDI retained some key project staff; however, with limited capacity to travel, their ability to monitor the project remained limited. Several key staff left SFDI after implementation stalled.

- 3. Project implementation restarted with a reduced scope in the spring of 2019.** In February 2019 the Government approved an allocation of AZN 2.09 million (US\$1.23 million equivalent), and subsequently made a new application for Loan disbursement. By July 1, 2019, all overdue payments to vendors for goods and services were settled. SFDI commissioned and submitted a combined 2017/2018 financial audit report on June 30, 2019, which the World Bank reviewed and found acceptable. SFDI issued instructions to civil works contactors to complete the 13 unfinished micro-projects by September 2019. As confirmed during the November 2019 implementation support mission, one micro-project is expected to conclude by March 31, 2020 due to implementation delays. The implementation support mission advised the GoA on the following: (i) outstanding obligations from the Borrower towards contractors and beneficiaries, and actions to be completed towards the Bank to fulfill the Borrower's obligations under the Loan Agreement pending after the Closing Date would need to be financed entirely from the GoA's state budget; (ii) to communicate to all prospective beneficiaries that project activities will not resume; (iii) to prepare to procure the financial audit for 2019; and (iv) begin activities related to Project closure, such as preparing the Borrower's Implementation Completion and Results Report (ICR).

## **B. Rationale for Restructuring**

- 4. The GoA, in a letter dated January 4, 2019, requested the World Bank to terminate the project and respective Loan Agreement, discontinue project activities, and return the remaining loan proceeds to the Bank.** The World Bank replied on January 22, 2019 requesting information from the Government needed to process the GoA's request, including confirmation of the exact amount of undisbursed funds to be cancelled taking into account the Borrower's obligations under the project. Between January and June 2019, the Bank and SFDI sought to clarify the scope of activities that would be completed under the Loan given its pending cancellation. During an April 2019 implementation support mission, it was agreed that SFDI would cover financial arrears to contractors and consultants, complete the 13 micro-projects that were started and stopped in 2017, and provide tools and equipment to the first batch of 833 youth support program beneficiaries. SFDI also retains the obligation to ensure that all contracts are paid and closed in accordance with World Bank procurement regulations, to procure and submit a financial audit report up to the date of the final Project expenditure, and to prepare the Borrower's ICR.
- 5. The proposed restructuring responds to the GoA request of June 24, 2019 that the Bank cancel the undisbursed amount of the loan.** The June 24, 2019 letter also provided the additional information requested by the World Bank needed to process the cancellation. The proposed restructuring cancels the undisbursed Loan amount of **\$51,195,613.70**, which takes into account outstanding contractual liabilities and obligations, and brings forward the Project Closing Date to December 31, 2019. Project component costs and disbursement projections have been updated accordingly. There are no changes to the PDO, institutional arrangements, or safeguards policies. The June 24, 2019 GoA communication indicates that the financing of any works to be implemented after the Project Closing Date will be financed through the state budget. The Bank has communicated to Government the activities



that it must finance from internal state budget resources in order to fulfill its liabilities and obligations under the Loan Agreement.

## II. DESCRIPTION OF PROPOSED CHANGES

6. **The key changes proposed under this restructuring are:** (i) partial cancellation of the loan covering the total undisbursed loan amount equivalent to US\$51,195,613.7; (ii) changes to Project components and costs to reflect the reduced loan amount; (iii) reallocations to the disbursement categories to reflect the reduced loan amount; (iv) changes to Project disbursement estimates; (v) changes to risk ratings; (vi) changes to the Project implementation schedule; (vii) advancing the Project closing date to December 31, 2019; and (viii) changes to the Results Framework to advance the end target dates for all indicators in line with the new Project closing date of December 31, 2019.
7. **Cancellation Proposed.** The undisbursed amount equivalent to US\$51,195,613.70 will be cancelled from the Loan through this restructuring.
8. **Project Components and Costs.** The scope and total cost of activities under each component will be reduced to reflect the partial loan cancellation. The revised scope of each component is described below and summarized in Table 1.
  - a. *Component A: Micro-projects.* A total of 362 micro-projects will be completed by project closure. This includes 307 micro-projects completed under the parent Project and 55 micro-projects under Component A of the Additional Financing loan. Any further micro-projects that have been identified and for which design works have taken place will not be implemented. The revised cost estimate for Component A is US\$3.51 million.
  - b. *Component B: Housing Renovation and Social and Economic Infrastructure for IDP Settlements* consists of three subcomponents: (B1) rehabilitation of IDP collective centers, (B2) infrastructure support to selected IDP New Settlements, and (B3) support for operations and maintenance of rehabilitated collective centers and infrastructure in the selected IDP New Settlements. The revised cost estimate for Component B is US\$1.85 million.
    - i. Under Component B2, nine infrastructure subprojects will be completed, while 13 infrastructure subprojects that have been identified and for which design works have taken place will not be implemented.
    - ii. Under Component B1 and B3, no activities will be implemented.
  - c. *Component C: Livelihoods Support* consists of four subcomponents: (i) Youth Support Program (YSP), (ii) Income Generating Program (IGP), (iii) Micro-Finance Program (MFP), and (iv) Integrated Economic Support Program (ISP). The revised cost estimate for Component C is US\$5.90 million.
    - i. Under the YSP subcomponent, SFDI has provided training, business development support, and in-kind tools and equipment to the first batch of 833 youth from a total of 2,500 youth planned for support under the Additional Financing loan. Due to the Loan cancellation, SFDI will not support the remaining 1,667 youth beneficiaries.
    - ii. Under the IGP subcomponent, 134 IDP self-help groups from the first batch out of a total of 400 groups planned for support under the Additional Financing loan have been registered as LLCs, provided with business development support, and received small grants. The second batch of 133 IDP self-help groups have been registered as LLCs and provided with business development support. Due to the Loan cancellation, grants have not been provided to these 133 LLCs using loan financing. The GoA is expected to provide the grants using resources from the state budget.



- iii. No activities will be implemented under the MFP subcomponent due to the Additional Financing Loan cancellation.
- iv. No activities will be implemented under the ISP subcomponent due to the Additional Financing Loan cancellation.
- d. *Component D: Project Management, Implementation Support and Capacity Building.* The revised cost estimate for Component D is US\$2.67 million.

**TABLE 1: REVISED COMPONENT COSTS**

<b>Additional Financing Component Name</b>	<b>Original Component Cost (US\$M)</b>	<b>Revised Component Cost (US\$M)</b>
Component A: Microprojects	16.50	3.51 <sup>1</sup>
Component B: Housing Renovation and Social and Economic Infrastructure for IDP Settlements	22.53	1.85
Component C: Livelihood Support	20.00	5.90
Component D: Project Management, Implementation Support, and Capacity Building	7.50	2.67
Front-end fee 0.25%	0.167	0.167
Expenditures WB/8096-AZ		0.478
<b>Total:</b>	<b>66.7</b>	<b>14.57</b>

- 9. **Reallocation between Disbursement Categories.** Disbursement category 1 is reduced to \$15,337,636.3 as a result of the Loan cancellation.
- 10. **Disbursement Estimates.** No further disbursements are expected between restructuring and the Project closing date. Disbursement projections have been updated to reflect this.
- 11. **Overall Risk Rating.** The Overall Risk Rating remains Substantial. Political and Governance risks remain Substantial. Risks related to Sector Strategies and Policies remain High. Risks related to the Technical Design of the Project are raised to Substantial due to the cancellation of the rigorous impact evaluation of livelihood support activities, which negatively affects the quality of the project’s Monitoring & Evaluation system and its ability to provide evidence of PDO achievement. Risks related to Institutional Capacity for Implementation and Sustainability are raised from Substantial to High given uncertainties over Government’s intent to continue supporting activities of SFDI or specific components of the project. Fiduciary risk remains Substantial. Environmental and Social Risks were recently raised from Low to Moderate to reflect SFDI’s reduced capacity to monitor the project (e.g. no site visits have occurred since 2017). Stakeholder risk is raised from Moderate to Substantial. The long delay in project implementation and gaps in communication from the Government on the project’s status and future raise risks of unmet expectations among key stakeholders, including project beneficiaries.

<sup>1</sup> The \$3.99 million figure for Component A provided in section IV below is the sum of the Component A revised costs and the \$478,000 in expenditures for micro-projects completed under the parent Project Loan (WB/8096-AZ).



12. **Implementation Schedule.** Most, but not all, Project activities will be completed by December 31, 2019. At the time of writing, ten contracts for infrastructure subprojects under Components A and B are ongoing. Of these, two will be terminated outright as no works have begun. Another seven are expected to be completed by December 31, 2019. One micro-project, for which approximately US\$39,000 remains to be paid to the contractor, is expected to be completed by March 2020. Under Component C, the services of the Project Implementing Agency for the YSP will be needed through March 2020 to oversee the distribution of tools and equipment to YSP beneficiaries and collect data needed for the Borrower’s ICR. Project management costs will be required after the December 31, 2019 closing date to finance the final financial and entity audit report, and draft and submit the Borrower’s ICR. Finally, given that the second batch of 133 income generation groups—consisting of approximately 1,500 individual IDPs—under subcomponent C2 have been formed, trained, registered as LLCs, provided with business development support, developed approved business development plans, opened bank accounts and deposited their counterpart contributions, the expectation has been created that they will receive the small grants as planned under the project. During the November 2019 implementation support mission, the World Bank thus advised the GoA of the need to finance the costs of the above-mentioned activities incurred after the Project closing date to fulfill its outstanding obligations to contractors and beneficiaries and the Borrower’s obligations to the Bank under the Loan Agreement.
13. **Project Closing Date.** The project closing date is advanced by twelve months to December 31, 2019.
14. **Results Framework.** The end target dates for all results indicators have been advanced to the new project closing date of December 31, 2019.

**III. SUMMARY OF CHANGES**

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Overall Risk Rating	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Disbursements Arrangements		✓



Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

#### IV. DETAILED CHANGE(S)

##### COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Micro-projects	15.00	Revised	Micro-projects	3.99
Housing Renovations	33.00	Revised	Housing Renovations	1.85
Livelihood Support	11.00	Revised	Livelihood Support	5.90
Project Management and Capacity Building	7.00	Revised	Project Management and Capacity Building	2.67
<b>TOTAL</b>	<b>66.00</b>			<b>14.41</b>

##### LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-80960	Closed	30-Jun-2016	31-Dec-2016, 29-Sep-2017		



IBRD-86270      Effective      31-Dec-2020      31-Dec-2019      30-Apr-2020

**CANCELLATIONS**

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IBRD-80960-001	Repaying	USD	49,999,388.06	0.00	28-Jun-2019	49,999,388.06	BORROWER'S REQUEST FOR COUNTRY REASONS
IBRD-86270-001	Disbursing	USD	66,700,000.00	51,195,613.70	06-Jul-2019	15,504,386.30	BORROWER'S REQUEST FOR COUNTRY REASONS

**REALLOCATION BETWEEN DISBURSEMENT CATEGORIES**

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
IBRD-86270-001   Currency: USD					
iLap Category Sequence No: 1		Current Expenditure Category: GD,CW,Non-CS,CS,AUD,GR, MiCR,TR,IOC			
	66,533,250.00	13,337,636.30	15,337,636.30	100.00	100
iLap Category Sequence No: 3		Current Expenditure Category: Interest Rate Cap & Collar Premium			
	0.00	0.00	0.00		
iLap Category Sequence No: 2		Current Expenditure Category: Front-end Fee			
	0.00	0.00	0.00		100
<b>Total</b>	<b>66,533,250.00</b>	<b>13,337,636.30</b>	<b>15,337,636.30</b>		



## DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2012	7.50	4,744,100.83
2013	6.00	5,483,982.59
2014	9.80	17,012,370.25
2015	16.60	8,135,706.16
2016	10.10	6,628,058.70
2017	12.00	5,490,600.27
2018	16.00	660,326.48
2019	18.00	7,186,097.61
2020	19.00	0.00
2021	1.70	0.00

## SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating at Approval	Current Rating
Political and Governance		● Substantial
Macroeconomic		● Moderate
Sector Strategies and Policies		● High
Technical Design of Project or Program		● Substantial
Institutional Capacity for Implementation and Sustainability		● High
Fiduciary		● Substantial
Environment and Social		● Moderate
Stakeholders		● Substantial
Other		
Overall		● Substantial



Results framework

COUNTRY: Azerbaijan

IDP Living Standards and Livelihoods Project

Project Development Objectives(s)

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

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	End Target
<b>Improve living conditions of targeted internally displaced persons</b>			
Direct project beneficiaries (Number)		240,000.00	371,000.00
<i>Action: This indicator has been Revised</i>			
Female beneficiaries (Percentage)		0.00	50.00
Percentage of households with increased access to basic rural infrastructure (Percentage)		55.10	85.10
<i>Action: This indicator has been Revised</i>			
Percentage of households who are satisfied with the quality of basic rural infrastructure (Percentage)		24.20	54.20
<i>Action: This indicator has been Revised</i>			
Changes in housing deficiencies: satisfaction with housing condition (Percentage)		0.00	75.00
<i>Action: This indicator has been Revised</i>			
<b>Increase economic self-reliance of targeted internally displaced persons</b>			



Indicator Name	DLI	Baseline	End Target
Improvement in the quality and sustainability of IDP livelihoods (Percentage)		0.00	20.00
<i>Action: This indicator has been Revised</i>			

**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline	End Target
<b>Micro-projects</b>			
1. # of completed subprojects (disaggregated by type) (Number)		307.00	490.00
<i>Action: This indicator has been Revised</i>			
2. Number of people benefitting from access to improved infrastructure (Number)		205,793.00	313,000.00
<i>Action: This indicator has been Revised</i>			
<b>Housing Renovations</b>			
3. # of collective centers that have been renovated by the project (Number)		103.00	103.00
<i>Action: This indicator has been Revised</i>			
<b>Livelihood Support</b>			
5. Increase in income of direct project beneficiary households (Percentage)		0.00	20.00
<i>Action: This indicator has been Revised</i>			



Indicator Name	DLI	Baseline	End Target
6. Increase in income of direct project beneficiary households (Number)		0.00	20.00
<i>Action: This indicator has been Revised</i>			
7a. # of targeted beneficiaries who gain employment (Number)		6,236.00	9,600.00
<i>Action: This indicator has been Revised</i>			
7b. Number of targeted beneficiaries who gain employment-- female beneficiaries (Number)		3,601.00	5,400.00
<i>Action: This indicator has been Revised</i>			
8. Increased value of assets owned by direct beneficiaries (Number)		0.00	10.00
<i>Action: This indicator has been Revised</i>			
9. Percentage increase in profit of microloan (Percentage)		0.00	20.00
<i>Action: This indicator has been Revised</i>			
10. No of active loan accounts -Microfinance (Number)		0.00	3,300.00
<i>Action: This indicator has been Revised</i>			
10a. Percentage of active loan amounts held by vulnerable IDPs (Percentage)		0.00	50.00
10b. Percentage of active loan amounts held by women (Percentage)		0.00	20.00
10c. Percentage of project-supported institutions that are reporting on this indicator (Percentage)		0.00	100.00
<b>Project Management and Capacity Building</b>			
Grievances registered related to delivery of project benefits addressed (%) (Percentage)		0.00	100.00



# The World Bank

IDP Living Standards and Livelihoods Project (P122943)

Indicator Name	DLI	Baseline	End Target
<i>Action: This indicator has been Revised</i>			
Grievances related to delivery of project benefits that are addressed-(number) (Number)		15.00	75.00

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IDP Living Standards and Livelihoods Project (P122943)

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