



Summary Poverty Reduction and Social Strategy

Project Number: 43406
November 2009

Proposed Credit Guarantee Republic of Azerbaijan: Azerenerji JSC Janub Gas Fired Power Plant Project

An initial poverty and social assessment (IPSA) is prepared in the early stage of the project cycle to assess the significance of social issues for a project. In accordance with ADB's public communications policy (PCP, 2005), the IPSA is disclosed upon completion. The final summary social assessment is included as an appendix to the project's report and recommendation of the President.

Asian Development Bank

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title: Azerbaijan Guarantee Support for Janub Gas Fired Power Plant

Lending/Financing Modality:

Guarantee

Department/
Division:

CWRD/CWEN

I. POVERTY ANALYSIS AND STRATEGY

A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

1. The country's poverty incidence has been reduced from 47% in 2002 to 13% in 2008. This is partly the result of its consistently double-digit GDP growth between 2003 and 2007 which averaged 21.8 percent per year. This growth owes much to its expanding oil industry and the rising oil price in the world market. The CSP consider the country's development needs as still tremendous. The CSP identified the deteriorating physical infrastructure and their need for rehabilitation. The State Program on Poverty Reduction and Economic Development (2003–2005) which is currently being updated identified power sector improvement as one actions to reduce poverty.

B. Poverty Analysis

Targeting Classification: GI

1. Key Issues

Poverty remains relatively high in Azerbaijan. According to a 2008 speech given by the chairperson of statistics, on the basis of consumption per capita, an estimated 13.2% of the population lives below the poverty line and 2.0% live in extreme poverty. The national poverty line is estimated as the cost of a minimum consumption basket, calculated on the basis of per capita monthly minimum consumption norms. The unit of observation for poverty statistics is the individual. Analysis of house budget survey data for 2002–2005 shows that there is a small difference in the poverty rates for urban and rural areas. The exception is between Baku and the rest of the country; the poverty incidence in Baku has been declining at a faster rate than for the rest of the population. There are also regional differences in poverty levels, with the Nakhchivan Autonomous Republic and Upper Shirvan having the highest levels. Furthermore, internally displaced persons (refugees) have higher poverty levels than the rest of the population. In 2007, the average poverty incidence among these persons was 37% (compared to 16% for the country). The highest poverty incidence among internally displaced persons in 2003 was observed in rural settlements (61%), while in urban areas, the poverty level for internally displaced persons was approximately 42%. In contrast, there are no significant differences in the poverty levels for men and women.

To deal with poverty issues, approximately 30 types of social benefits for 13 categories of vulnerable groups are included in Azerbaijan's poverty alleviation programs. These programs were created under the Law of the Republic of Azerbaijan on Social Benefits (2006).

There is a significant level of uneven economic development in Azerbaijan. The wealthiest 10% of the population control 29.5% of the wealth, while the poorest 10% control only 3.1%. The wealth was originally attributed to the booming oil industry. However, the recorded share of the non-oil sector in gross domestic product (GDP) in 2008 was approximately 50%. The GDP has remained relatively high in spite of the global economic crisis. The GDP real growth rate for Azerbaijan was 15.6% in 2008, and its economic growth is reflected in its low unemployment rate of 6.5% (2007). The GDP rates were 26%, 35%, and 24%, respectively, in 2005, 2006, and 2007. Poverty has responded strongly to economic growth—in the past 4 years, overall poverty has fallen by 16%, a 4% decrease.

The Project is an integral part of improving the power system in Azerbaijan to provide efficient, reliable and adequate electricity for sustained economic growth. It is not a core poverty reduction project but

expected to address the Interim Operation Strategy of Azerbaijan to develop the non-oil sectors of the economy to attain more balanced and sustainable growth. One constraint of the improvement of the country's power sector is the aging facilities. The project will replace the 40-year Shirvan Thermal Power Plant with a state of the art Janub Gas Fired Power Plant. The efficiency of the power plant will improve by 92% and provide affordable stable power. The fuel savings from the plant is estimated at \$52 million per annum. This additional gas may be exported or used for further generation of power. The contribution of the project in providing more reliable and stable supply of electricity will benefit both industrial and domestic users. It can enhance the employment capacity of industrial users and has multiple poverty impacts on the domestic users. It is well-established that electricity supply can encourage home businesses to flourish as lights extend available time and access to information and communication improves. The quality of water service, health care and schools improves and becomes more available as electricity-driven devices are put to use. The greater and wider availability of public and private services saves time that can be diverted to other activities and further improve production. The wider use of electricity for lighting and cooking can spare wood fuels that reduces forest use and improve indoor air quality. Electricity has also enabling effect on women. It enhances their income generation capacity, physical mobility, ability to organize work based on convenience, knowledge on gender issues and decision making power.

2. Design Features.. When the plant was in full operations with six of the seven turbines running, there were 1,012 employees (2007). The number of employees necessary to run the plant has decreased according to demand for the power as new more efficient plants have come on line. In 2008 there were 964 staff and 381 staff in 2009. Since 2007 over 170 were retired and 460 were re-employed with the assistance of AzerEnergy at various industrial and construction companies, including AZENCO which is the contractor for the Project. In addition to receiving pension or severance payment, many of the former employees have small businesses and small plots of land for farming at Shirvan district.

About 100 employees will be necessary to operate the new plant. Of these 40 are from the Shirvan power plant. There will be 341 additional redundancies. As with the other employees, these employees will be offered retirement and early retirement (for those applicable for pension), retraining or severance payment in accordance with Azerbaijani legislation. AzerEnergy has been active in the retraining and relocation of their staff in close coordination with the local government.

II. SOCIAL ANALYSIS AND STRATEGY

A. Findings of Social Analysis

1. The project has no land acquisition impacts. 45 employee families and 5 refugee families have been relocated from the employee apartments on the site to a newly constructed five story apartment building in the nearest town.
2. The main beneficiaries of the project are the industries and retail customers and the improvement of the quality and availability of power supply are bound to enhance their production and employment-generating capacity.
4. The domestic users will also benefit from the improved quality and availability of power supply by encouraging home business extending time for work and recreation and enhancing social services among others.
5. The improved quality and availability of electricity will increase women's access to information and technology and increase their income generation capacity, physical mobility, ability to organize work

based on convenience, knowledge on gender issues and decision making power.

6. There are no indigenous peoples groups that will be affected.

B. Consultation and Participation

1. Provide a summary of the consultation and participation process during the project preparation.

Meeting with local officials and representatives of the affected persons were done in January 2006.

2. What level of consultation and participation (C&P) is envisaged during the project implementation and monitoring?

Information sharing Consultation Collaborative decision making Empowerment

3. Was a C&P plan prepared? Yes No

If a C&P plan was prepared, describe key features and resources provided to implement the plan (including budget, consultant input, etc.). If no, explain why. Due to the minimal adverse social impact expected if any, a C&P plan was not prepared.

C. Gender and Development

1. Key Issues.

The project is expected to have no adverse impact on women. But it is expected to benefit women in various aspects. Like any other project that increases the quality and availability of power supply, it is expected to enhance their income generation capacity, physical mobility, ability to organize work based on convenience, knowledge on gender issues and decision making power

2. **Key Actions.** Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

Gender plan Other actions/measures No action/measure

Summarize key design features of the gender plan or other gender-related actions/measures, including performance targets, monitorable indicators, resource allocation, and implementation arrangements.

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
INVOLUNTARY RESETTLEMENT	Limited impact.	Employees and 5 refugee families have been relocated to newly constructed apartment in the nearest town.	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action
Indigenous Peoples	NO IMPACT.		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework

			<input checked="" type="checkbox"/> No Action
Labor <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> CORE LABOR STANDARDS	341 employees of the Shirvan plant will be redundant.	Company is actively assisting in the re-employment and training.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> NO ACTION
Affordability	There is no indication that the project will increase power pricing or benefit more the non-poor		<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others(conflict, political instability, etc), please specify	Not identified		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
IV. MONITORING AND EVALUATION			
Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			