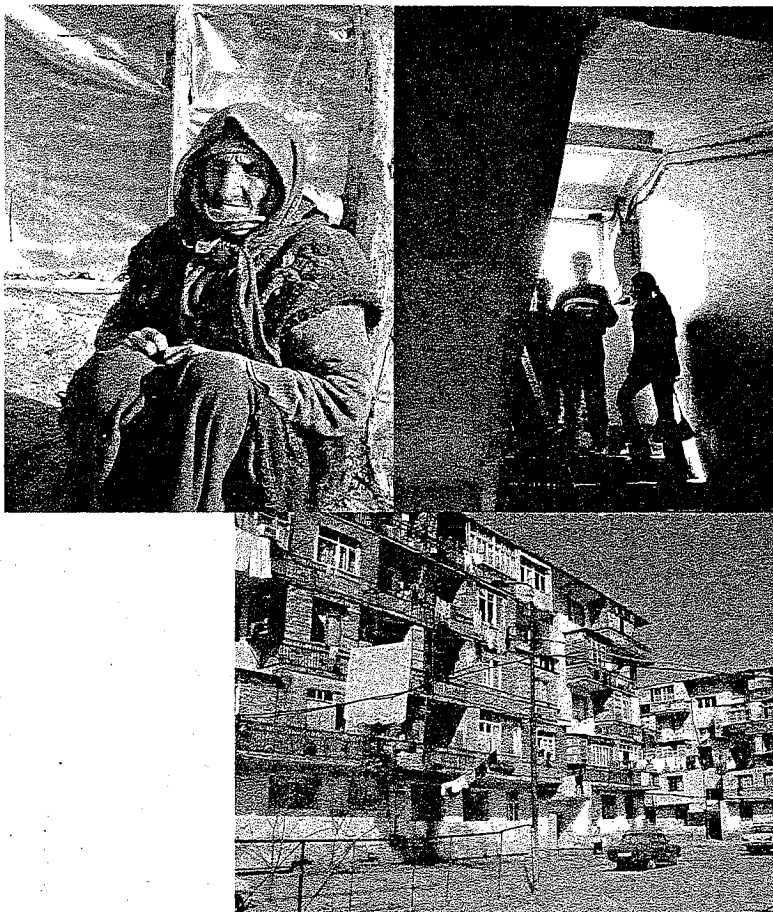


FINAL REPORT TA 4478-AZE

**Social Infrastructure for Internally
Displaced Persons and
Vulnerable Population Project**



Prepared for
The Government of Azerbaijan
and the
Asian Development Bank

by

Blackstone Corporation
Resource Management & Tourism Consultants, Canada
In association with
GHK International (UK), Synergetics (AZ) and Sulaco (AZ)

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List of Abbreviations/Acronyms

ADB	Asian Development Bank
AHAP	Azerbaijan Humanitarian Assistance Programme
ARAN/OXFAM	ARAN Humanitarian Development Organization p19
ARRA	Azerbaijan Rehabilitation and Reconstruction Agency
AzM	Azerbaijani Manats
AzRIP	Azerbaijan Rural Investment Programme
BTC	Baku - Tblisi - Ceyhan (pipeline)
CA	Cities Alliance
CACDP	Central Area Community Development Programme
CAGz	Community Action Groups
CBLG	Capacity Building for Local Government
CBLG	Capacity Building for Local Government
CBO	Community Based Organization
CBT	Capacity-Building and Training
CCC	Community Coordination Committee
CDD	Community-Driven Development
CDS	City Development Strategy
CG	Community Group
CHF	Community Housing Fund

CPIC	Community Project Implementation Cycle
EA	Executing Agency
EDSP	Economic Development Support Project
EIA	Environmental Impact Assessment
EOI	Expression of Interest
EU	European Union
GDP	Gross Domestic Product
GOAz	Government of Republic of Azerbaijan
HRD	Human Resources Development
HSB	Household Budget Survey
ICDP	Integrated Community Development Programme
IDP	Internally Displaced Persons
IEE	Initial Environmental Evaluation
IEE	Initial Environmental Examination
IMO	International Migration Organization
IPSA	Initial Poverty and Social Assessment
IPSA	Initial Poverty and Social Assessment
JAR	Joint Annual Review
LEA	Local Executive Authorities
LFC	Local Facilitation Consultants
LIF	Local Initiatives Facility
LIS	Local Initiatives Scheme
LISF	Local Initiatives Support Fund
LLC	Limited Liability Corporation
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MDS	Management, Design and Supervision
MEPNR	Ministry of Environmental Protection and Natural Resources
MFI	Micro Finance Institution
MIS	Management Information System
MOED	Ministry of Economic Development
MOF	Ministry of Finance
MOJ	Ministry of Justice
MOT	Ministry of Taxation

NGO	Non Governmental Organization
NRC	Norwegian Refugee Council
OD	Organizational Development
OM	Operations Manual
OSCE	Organization for Security and Cooperation in Europe
PCBs	Private Commercial Banks
PD	Project Director
PIMU	Project Implementation and Management Unit
PIU	Project Implementation Units
PMPP	Participatory Micro-Credit Project Proposal
PMU	Project Management Unit
PPMS	Project Performance Management System
PPTA	Project Preparatory Technical Assistance
PSA	Production Sharing Agreements
PSA	Poverty and Social Assessment
PSC	Project Steering Committee
QC	Construction Supervision
RIU	Regional Implementation Unit
RPA	Rapid Participatory Assessment
RT	Regional Towns
SCRI	State Committee for Refugees and IDPs
SFDI	Social Fund for Development of Internally Displaced Persons
SIAR	Statistical Institute of the Azerbaijan Republic
SII	Social Infrastructure for IDPs and Vulnerable Populations
SIRT	Social Infrastructure for Regional Towns
SOE	Statement of Expenditure
SOFAZ	State Oil Fund
SPPRED	State Programme for Poverty Reduction and Economic Development
SPSEDR	State Programme on Social & Economic Developm't. of the Regions
TA	Technical Assistance
TAC	Town Advisory Committee
TCB	LIF Training and Capacity-Building
UK	United Kingdom

UN	United Nations
UNDP	United Nations Development Programme
USD	United States Dollar
WB	World Bank
WFP	World Food Programme
WV	World Vision

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EXECUTIVE SUMMARY

1.0 INTRODUCTION TO THE FOUR COMPONENTS OF THE PPTA

The ADB's Technical Assistance Report of December 2004 identified, as a top priority of the Government of Azerbaijan (GoAZ), the reduction of hardships for up to one million internally displaced persons (IDPs) and other vulnerable groups who had been forced to leave their homes during the Armenia-Azerbaijan conflict of 1988-1994. This first priority was consistent with the ADB's Country Strategy and Programme Update for 2004-2006. The ADB had already begun its assistance to IDPs through a pilot project in Mingechevir in 2002.

In 2001, Azerbaijan became a signatory to the Council of Europe's Charter on Local Governance. At this time, another important government commitment and priority became establishment of decentralised and democratic local self-government. Realization of progress on this second goal would both serve to strengthen links with Europe and to support regional towns to meet their future economic and social needs through a strengthened local governmental structure and implementation of specific infrastructural improvements. This second priority was also identified as an area of common interest between the ADB and the GoAZ.

At the request of the GoAZ, the ADB contracted a Technical Assistance (TA) team in March of 2005 to advance the first of these two priorities by undertaking a Project Preparation Technical Assistance (PPTA) to prepare an economically and institutionally viable initiative to address the problems of IDPs and the most vulnerable. ***This first Component*** of the PPTA, valued at some \$12.7 million, is the "***Social Infrastructure for Internally Displaced Persons (IDPs) and Vulnerable Populations***", or ***SII*** (see Section 4.0 below). It was decided that three regional towns should be selected as the focus for this project, given the fact that considerable efforts are already underway in the country's capital of Baku and in rural areas through other programmes and loans, and because a focus on regional towns would also support the government's priority of strengthening local self-government. The objectives of the SII are to:

- increase access to affordable social infrastructure for IDPS and other vulnerable groups in selected regional towns; and
- strengthen the capacity of government and community groups to identify priority social infrastructure needs and provide services to vulnerable groups in selected regional towns.

Activities under the SII will encompass the following:

- Social Infrastructure Investments will provide funding for specific social infrastructure improvements that have been identified as a result of the needs assessment undertaken as part of this PPTA. Following a needs assessment the three regional towns (RTs) of Mingechevir, Barda and Sumgayit were selected by virtue of their large populations of IDPs and vulnerable populations.

- Institutional Arrangements for Implementation and Management will define how, and by whom, the SII will be carried out;
- Capacity Building will respond to needs and provide funding and staffing related to institutional strengthening/capacity building to implement the SII. This activity will also provide a stronger platform for design and implementation of The SIRT (see below). The focus will be on building capacity within local government institutions and community groups.

Shortly after inception of work on the PPTA, in April 2005, the GoAZ and the ADB agreed to increase the total project amount by some \$36.6 million in order to directly address the second government priority of strengthening local governmental planning, management and implementation, through investment in community development strategies and investments in social infrastructure in up to eight regional towns. The TA team has been asked to provide, as part of this phase of the PPTA, an initial context/foundation for the preparation, in the immediate future, of a broader PPTA that will address *the second Component of this PPTA - the Social Investment for Regional Towns (SIRT)*, the main activities of which are briefly listed below:

- City/Regional Towns Development Strategies (CDS) will involve the preparation of detailed community plans that will guide the development of eight RTs for many years into the future;
- Social Infrastructure Investments will fund implementation of the high-priority infrastructural works identified through a pending needs assessment. Such works could, among others, include solid waste management, road improvements, drainage rehabilitation, construction of community centres, etc.;
- Institutional Arrangements for Implementation and Management will define how the SIRT will be carried out;

The *third Component* discussed in the main body of the report in some detail and whose funding is covered under that of the SIRT, is the *Local Initiatives Facility (LIF)*. It will enable community groups (CGs) within eligible regional towns under the SIRT to select and implement the high-priority social infrastructure initiatives that they themselves have selected through a demand- and community-driven process defined through the PPTA. The aims of this Component are consistent with, and support, the decentralization objectives of the GoAZ as well as those contained within the Council of Europe's Charter on Local Self Governance.

The *fourth Component, Capacity Building (CBLG)*, will involve the delivery of training and other types of capacity building that are required to implement the SIRT and LIF, and that create conditions for the long-term sustainability of social infrastructure and other improvements funded under these two Components. Its budget will also derive from the overall SIRT budget.

In addition to the discussion of the SII and SIRT, this PPTA report includes:

- An overview of the socio-economic and institutional/legal regulatory contexts;

- A Project Cost and Financing Plan for the four Components of the PPTA;
- A Initial Environmental Evaluation (IEE);
- A Social and Poverty Assessment, including a gender action plan;
- A discussion of project justification;
- A Project Performance Management System (PPMS).

2.0 SOCIO-ECONOMIC CONTEXT

The armed conflict with Armenia that occurred between 1988 and 1994 resulted in the occupation by Armenia of over 20% of some of the most productive territory of Azerbaijan, including the enclave of Nagorno Karabakh (3%) and seven adjacent regions (17%). During this period, an estimated one million people, either forced out of Armenia or Nagorno Karabakh/surrounding territories, struggled to find shelter in the remaining parts of Azerbaijan. Many of the 750,000 internally displaced persons (IDPs) still live in temporary shelters in 58 districts around the country.

In the second half of the 1990s, the first signs of economic recovery emerged as the GoAZ signed a multi-million dollar contract with the world's major oil companies to capitalize on the sizeable but mostly untapped off-shore oil resources of the Caspian Sea. GDP growth has averaged about 10% since 2000 and is expected to slightly pick up in the coming years.

Despite this growth, at least 44.7% of Azerbaijanis continue to live below the absolute poverty line.¹ The conflict and the difficult transition to a market economy have taken a serious toll not only on IDPs but also on non-IDP "host" populations, particularly in regional towns. The line between IDPs and local residents as far as poverty and vulnerability are concerned has blurred such that the population as a whole can be considered as largely vulnerable, particularly in regional towns where the benefits of the economic boom have not yet reached.

3.0 INSTITUTIONAL, POLICY AND LEGAL CONTEXT FOR PROVISION OF SOCIAL INFRASTRUCTURE SERVICES

Since the focus of the SII, SIRT and LIF will be on regional towns, and since these Components will involve the strengthening and participation of local governmental institutions, it is important to understand the legal, institutional and policy environment within which they will be implemented. An analysis of current laws and policies has yielded a number of issues which are described in depth in Section 3 of the report, and which have implications for the PPTA. These include:

- Inadequacy of municipal financial resources;
- A legislatively ambiguous mandate regarding Local Executive Authority and municipal government /Baladiyya responsibilities;
- Unilateral devolution of responsibilities to municipalities;
- Barriers to municipal autonomy;
- Municipalities' "non-governmental" status;

¹ Republic of Azerbaijan. State Programme on Poverty Reduction and Economic Development (SPPRED) Progress Report 2003/2004 (Baku, 2005) p.32.

- Unfavourable conditions with municipal government for long-term planning;
- Inadequate human resource capacity;
- Lack of budgetary oversight;
- Lack of a national association;
- Weak civil society;
- Impediments to NGO formation.

Already implemented capacity building initiatives to strengthen local government have been used as a basis for building the capacity-building programmes described in this PPTA.

4.0 SOCIAL INFRASTRUCTURE FOR IDPS AND VULNERABLE POPULATIONS (SII)

4.1 Social Infrastructure Investments

This activity will involve the delivery of improved social infrastructure to IDPs in Barda, Mingechayir and Sumgayit. As discussed in Section 4 of this report, it will support the construction of medium-density urban housing allowing IDP families to move out of selected inhabited secondary school facilities to improved living conditions while also making the schools again fully available for educational use. Thus, approximately 58% of IDP families inhabiting (36) secondary schools - 810-840 families depending on the final housing configuration selected - will be relocated. This will free approximately 75% of the secondary schools in the 3 participating towns. Re-located IDP families will be provided with new residential accommodation in medium-density, urban apartment buildings. These improvements will make classrooms and other school facilities available to accommodate students while reducing the need to operate schools in shifts. In this way, both IDPs and local populations who had lost or diminished use of many of its schools, will benefit. The new apartment buildings will be built on land owned by the municipal governments/Baladiyyas of each of the three towns. The feasibility study is described in detail in Section 4, while associated costs are contained in Section 10.

4.2 Institutional Arrangement for Implementation and Management

The State Committee for Refugees and IDPs (SCRI) will be the Executing Agency (EA) for the SII. An inter-ministerial Project Steering Committee (PSC) will be established, the other members being drawn from the Ministries of Finance, Economic Development, Justice and Education. A representative from ADB will participate in the PSC meeting as an observer.

The State Fund for Development of IDPs (SFDI) will act as the Implementing Agency (IA). This agency was originally established by the Council of Ministers as the IA for a World Bank and GoAZ joint project aimed at improving the living standards of IDPs and refugees through community-based social infrastructure projects and creation of new employment opportunities through micro-finance programmes. SFDI has completed/is currently implementing approximately US\$150 million worth of projects with a further US\$150 million planned, including the present SII project. Managed funds have come from many agencies including the World Bank, the Azerbaijani State Oil Fund, UNDP, UNHCR, the Azerbaijan Embassy in Turkey, the Greek Embassy in Azerbaijan and the

State. The Islamic Development Bank will be added to the list during 2005². Under its original World Bank funding of US\$10 million, SFDI has implemented almost 200 IDP-related social infrastructure and assistance sub-projects with a total value of approximately \$7.5 million and provided micro-finance to new businesses in the amount of \$2.1 million.

It is proposed that a Project Implementation and Management Unit (PIMU) be set up under the SFDI, along with local Project Implementation Units at the regional town level. The PIMU will:

- coordinate with other agencies concerned;
- carry out general project management and the supervision of detailed engineering design, procurement, construction supervision;
- prepare an overall implementation plan and annual budget;
- procure contractors for implementation of the physical works at the town level;
- maintain financial accounts;
- prepare quarterly progress reports, and a final project completion report;
- organize M&E activities; and
- direct activities under the social and community awareness programme.

Actual implementation of the SII will be carried out in the project towns under the technical supervision and guidance of a Local Project Implementation and Management Unit (PIMU), staffed with qualified persons and headed by a Project Implementation Officer (PIO). The local units will be responsible for the day-to-day management and implementation of the respective physical works carried out through the contractors, and for preparing an annual development program and annual budget. A Town Advisory Committee (i.e., a town-level version of the PSC) will be established in each town to guide SII implementation. As part of the overall counterpart funding, the local municipalities (Baladiyyas) are to provide land for the construction of the new apartment buildings.

The Government will select and engage international consultants working in association with domestic consultants to assist the PIMU under SCRI for project implementation and management. The consultancy will be carried out mainly by domestic consultants, requiring an estimated 16 person-months of international, and 112 person-months of domestic, inputs and will be implemented over a period of three years, beginning in July 2006. Physical completion is expected by June 2009 and loan closing date on 31 December 2009. It is proposed that a Re-Housing Commission be set up in each project town, consisting of the local stakeholders of the host communities and local representatives of the SCRI. The Commission would be responsible for reviewing the re-housing strategy in light of the existing situation, and assist with the re-housing process as it moves forward. The early formation of new Mahala Komitesis/Block Committees (or strengthening and registration of community groups that may already be functioning within the IDP communities living in the schools who are being moved to the new buildings) is essential to ensure the re-housed IDPs can fully benefit from their move, and for the moving process to be implemented successfully.. Management of the

² Annex F provides details of activities completed by SFDI, along with the typical Micro-Project Implementation Cycle.

facilities will not only include ensuring the provision of services to the buildings, cleaning of common areas and external and internal maintenance, but also control of how the buildings and the surrounding areas will be used.

4.3 Capacity Building (CB)

Capacity building (CB) initiatives related to the SII will address several broad areas including social mobilization, strategic planning, budgetary processes, financial management, procurement and project monitoring. This report section provides information on the capacity building activities that will take place during the life of the SII. CB activities will encompass three main categories, that is, human resource development, organization development and infrastructure development. Details of capacity building for the SII can be found in Section 4 of the report.

5.0 SOCIAL INFRASTRUCTURE FOR REGIONAL TOWNS (SIRT)

Design of the SIRT will be the primary focus of an upcoming, separately contracted, phase of the PPTA. Its primary activities are discussed below:

5.1 City/Regional Towns Development Strategies (CDS)

This work will, among others, include identification of up to eight regional towns (including the three included in the SII and development of community plans for these. Utilizing a highly participatory strategy, detailed long-range strategies and urban plans will be prepared for the towns, including identification of key infrastructural needs and feasibility studies for priority projects. Preliminary criteria for selection of the remaining (up to) five RTs are provided in Section 5 of the report.

5.2 Social Infrastructure Investments

High-priority infrastructural works identified through a needs assessment will be funded. Such needs may fall under several different sub-project types, including solid waste management, road improvements, drainage rehabilitation, construction of community centres, elders' and youths' facilities, etc..

5.3 Institutional Arrangements for Implementation and Management

As noted in Section 3 of this Executive Summary, the operating environment at the local governmental level into which the SIRT will be implemented carries with it a number of issues. The proposed institutional structure for the SIRT must be considered as preliminary. Much more work on the ideal institutional framework remains to be done under a pending, separately contracted, second phase of this PPTA that encompasses up to five additional towns. Thus, the following recommendations for the SIRT are based on the assessment to date of local governmental/non-governmental capacity and assumptions regarding capacity-building that will be undertaken (see Section 7):

The logical Executing Agency for the SIRT is the **Ministry of Economic Development (MOED)**. MOED was selected as the EA because of its roles in implementing the State Programme on Social and Economic Development of the Regions (2004-2008)

(SPSEDR), and the State Programme on Poverty Reduction and Economic Development (SPPRED). As Section 2 of the report describes, the SPSEDR recognizes individual needs of the regions as well as the importance of encouraging development outside of Baku to address the current imbalance in economic activity. The SPSEDR places particular emphasis on: improvement of infrastructure and utility service supply (water, sanitation, gas, electricity, roads) to regions; construction of social buildings; harmonization of legislation and standards to enable membership in reputable international organisations and economic unions; establishment of a land cadastre; streamlining procedures for execution of property use and leasing rights; increasing baladiiyas' roles in managing infrastructure and utility services; and expanding the public-private dialogue. These emphases coincide with many of the elements of a City Development Strategy (CDS) as described above.

The institutional structure that is recommended on a preliminary basis, to be refined in a pending PPTA is briefly described below:

- An Inter-Ministerial **Project Steering Committee (PSC)** will be established at MOED with members drawn from Ministry of Finance, Ministry of Justice, and Ministry of Education and State Committee for Refugees and IDPs. A representative from ADB will participate in the PSC meeting as observer. The Minister of MOED will chair the PSC;
- A **Project Management Unit (PMU)** will be set up under the MOED within SPPRED. The PMU will:
 - coordinate with other agencies concerned;
 - carry out general project management and the supervision of detailed engineering design, procurement, construction supervision;
 - prepare an overall implementation plan and annual budget
 - procure contractors for implementation of the physical works maintain financial accounts;
 - prepare quarterly progress reports, and a final project completion report
 - organize monitoring and evaluation activities and activities under the social and community awareness programmes.
- A **Project Implementation Unit (PIU)** will be established at the RT level, headed by the Mayor of the Baladiiyas/elected municipal council. Responsibilities will include the carrying out of: detailed surveys, investigations and engineering designs of the individual city components; tendering; evaluation of bids and awarding of contracts; contract administration, supervision and quality control; monitoring of work carried out by the contractors; certification of payments; conducting of public awareness campaigns and participation programs; environmental assessment; compliance with loan covenants; and preparation of monthly reports.
- Performance of the PIU will be monitored and guided by a **Town Advisory Committee (TAC)** chaired by each city mayor. The committee members will include representation from the LEA, Baladiiya (two elected municipal counselors including one woman), and three citizens at large including private-sector business

representation. The Town Advisory Committee will meet regularly, at least once every three months, to review progress and sort out local issues and policy matters.

6.0 LOCAL INITIATIVES FACILITY (LIF)

The purpose of the Local Initiatives Facility (LIF) is to enable community groups (CGs) within the up to eight eligible regional towns (RTs) to select and implement the high-priority social infrastructure initiatives that they themselves have selected through a demand- and community-driven process to improve their well-being. Amelioration of basic social infrastructure needs will raise living standards and alleviate hardship, thereby enabling CG beneficiaries to have increased energy to devote to other productive social and economic activities. Moreover, the building of CG capacity, which is a fundamental and necessary Part of the LIF (see 5.6), will provide tools to enable CGs to undertake other positive community initiatives well beyond the duration of the LIF. In addition to strengthening CGs, an underlying aim of the LIF is to provide opportunities for development of productive partnerships and support between CGs and their municipal representatives.

It is important to note that, although the primary focus of the first PPTA was on the SII and amelioration of the situation of IDPs, work related to the LIF, which encompasses all stakeholders within regional towns, was also a focus of work under this first PPTA. Because of the level of detail of work addressing the LIF, a full section (6) and Annex (M) have been devoted to it.

The proposed structure of the LIF should be viewed as a preliminary model, to be finalized in an upcoming PPTA phase of work. This early model may, or may not, be too centralized and require scrutiny and refinement, particularly as regard areas of project management and accountability/monitoring and evaluation measures. Suggestions regarding some alternative management models worthy of consideration are described in Section 6 of the report, and recommendations provided, regarding the direction of future work to elaborate the LIF.

The work undertaken to date defining the operationalization of the LIF, covers the following issues:

- Operating principles;
- The typology of sub-projects to be funded;
- Sub-project eligibility criteria;
- Minimum/maximum sub-project size;
- Demand management and the typological mix of sub-projects;
- Community contribution;
- Project management and institutional arrangements
- Training and capacity-building;
- Overview of the Community Project Implementation Cycle (CPIC)
- Monitoring and transparency measures;
- Capacity-building and training; and the
- LIF investment strategy.

7.0 CAPACITY BUILDING AND INSTITUTIONAL ISSUES AND RECOMMENDATIONS

Section 7 of the report details current capacity within the three regional towns as far as national and local governing capacities are concerned. Legal, financial, planning and human resource development issues that must be addressed are defined in this section. Recommendations have been made regarding capacity building for the SIRT, the LIF, and for improving local self governance overall (see Section 7). Among the recommendations pertaining to the SIRT and local governance are the following:

- Roles and responsibilities of the LEA and the Baladiiyas must be defined in the interests of transparency of decision making and public clarity as to who is responsible for the range of local services;
- An initiative should be included to support collection of taxes and other revenues that fundamentally affect the ability of municipal government to function properly;
- Baseline mapping will be needed to provide a basis for planning and could/should ultimately encompass both a real estate and fiscal cadastre;
- LEAs should be supported to have stronger relationship with their constituencies through support in communications and incorporation of feedback from the community into their activities;
- Government entities (e.g. MOED) should be 'enrolled' in support efforts to get local NGOs registered;
- A programme should be developed to strengthen rental/other income generating potential on municipal lands;
- MOED and LEA personnel should be a part of a highly participatory process to identify high priority infrastructural needs of the community;
- A participatory monitoring, evaluation and reporting process should be instituted at the local level;
- Agencies such as IFES, ARAN and GTZ, which have been involved in municipal strengthening, should be consulted during preparation of training modules to build on existing strengths;
- Emphasis should be placed on a 'learning by doing' approach in order to convert theoretical knowledge into practical application;
- Linkages between the participating RTs' LEAs and Baladiiyas should be encouraged and enabled to promote transfer of ideas and increased communications and cooperation.

A comprehensive series of training measures directed at all levels of stakeholder participation are also included in Section 7.

Capacity building for the LIF will occur over the course of the seven steps of the Community Project Implementation Cycle (CPIC – see Section 6). It will involve several different forms of support, including: information and resource material preparation and dissemination; meetings; workshops; individual and group training; “learning-by-doing” and policy and planning processes, etc. Capacity-building and training will address the numerous subject areas required to enable LIF project implementation through all of the Steps, including but not limited to: CG organization and management; participation and consultation; proposal writing; detailed sub-project preparation; contracting and procurement; MIS; finances/ bookkeeping; monitoring and evaluation, operations and maintenance, social and environmental impact assessment, etc.

8.0 INITIAL ENVIRONMENTAL EVALUATION (IEE)

All SII and SIRT initiatives should be compliant with environmental assessment procedures of both the ADB (for Project Loans) and the Government of Azerbaijan. In general, it can be stated that **the project will have a net positive impact on the environment** by improving the quality of life of the targeted IDP communities, developing existing urban areas, and mitigating all potential negative impacts.

9.0 SOCIAL AND POVERTY ASSESSMENT

A Poverty and Social Assessment (PSA) has been carried out with a focus on the SII and the Local Initiatives Facility (LIF), as required under the Terms of Reference of this first PPTA. Additional social assessment work will be required at a later date related to the Social Infrastructure for Regional Towns (SIRT).

Findings of the PSA are that the SII and/or the LIF will:

- directly benefit some 814 IDP households (3500-4000 persons) living in secondary schools, who are virtually all living in poverty and in some of the worst conditions the country;
- result in improved health for all of the beneficiaries (targeted IDPs and students);
- reduce stress on the medical facilities and services and associated costs;
- improve safety as occupied buildings are generally in very poor condition and present many hazards to residents and students, including flooded basements, pest infestations and many fire hazards related to poor electrical systems, etc..
- improved education for thousands of students;
- have direct and indirect employment and income benefits;
- strengthen local government authorities through associated capacity-building initiatives, associated infrastructural improvements, creation of employment opportunities and promotion of new economic development and investment;

- produce many positive benefits to the local communities at large through the LIF by enabling local CG groups to develop and implement a wide variety of smaller-scale projects such as building rehabilitation, infrastructure repairs, improvements to health and educational facilities, development of community facilities such as elders' houses, youth centres, etc..
- contribute to Azerbaijan's realization of Millennium Development Goals (MDGs) as follows:
 - Goal 1: Eradicate Extreme Poverty: Project will help to reduce extreme poverty by moving IDPs to liveable accommodations;
 - Goal 2: Achieve universal primary education: Project will contribute immensely to educational improvements by vacating the schools of IDPs and refurbishing them for educational use;
 - Goal 3: Promote Gender Equality: Project will assist large numbers of female-headed households to acquire new housing, and include a Gender Equity Plan to ensure women are involved in project at all stages;
 - Goals 4,5,6: Reduce Child Mortality, Improve Maternal Health and Combat Disease: Project will provide improved health conditions for mothers, children and others among targeted population;
 - Goal 7: Ensure Environmental Sustainability: The project will be carried out in accordance with national and ADB-accepted standards.

10.0 PROJECT COST AND FINANCING PLAN

The total PPTA implementation cost (SII, SIRT, LIF and CBLG) is estimated at \$49.300 million equivalent. The foreign exchange cost is estimated at \$10.457 million, or about 21.2% of the total cost, including \$0.760 million for interest charge. The local currency cost is estimated at \$38.844 million equivalent, or about 78.8% of the total cost, including duties and taxes of about \$4.045 million. Table 10-5 summarizes the total estimated project costs.

Table EX-1: Project Cost Estimates (\$ million)					
	Activity	Foreign Exchange	Local Currency	Total Cost	Percent
A.	Base Cost^a				
	Social Infrastructure for Internally Displaced Persons	1.789	6.501	8.290	20.0
	Social Infrastructure for Regional Towns	4.250	14.831	110.081	46.0%
	Local Initiative Facility Fund	0.000	4.000	4.000	10.6%
	Capacity Building for Local Government				
	1. SCRI/SFDI	0.120	0.080	0.200	0.5
	2. Local Governments	0.320	0.480	0.800	1.9

	Subtotal	0.440	0.560	1.000	2.4
	Implementation Assistance				
	1. Consulting Services				
	a. Social Infrastructure for IDPs	0.348	0.347	0.695	1.7
	b. Social Infrastructure for Regional Towns	1.015	0.771	1.786	4.3
	2. Incremental Administration				
	a. Social Infrastructure for IDPs	0.110	0.332	0.442	1.1
	b. Social Infrastructure for Regional Towns	0.268	1.878	2.145	5.2
	Subtotal	1.740	3.328	5.069	12.2%
	Subtotal (A)	8.220	210.220	37.440	90.2%
B	Taxes and Duties	0.000	4.045	4.045	10.8%
C	Total Base Cost (including taxes)	8.220	33.265	41.485	100.0
D	Contingencies				
	1. Physical ^b	0.696	2.613	3.310	8.0
	2. Price ^c	0.781	2.965	3.746	10.0
	Subtotal (D)	1.477	5.579	7.056	17.0
E	Interest Charge	0.760		0.760	1.8
	Total^d	10.457	38.843	49.300	118.8

11.0 PROJECT PERFORMANCE MANAGEMENT SYSTEM (PPMS)

The Project Performance Management System generates critical management information for project managers to enable them to determine if the project is achieving its expected outputs and objectives, and if not, allows them sufficient time to take remedial action. It is an integral part of project management.

Both the project Executing Agencies and the Implementing Agencies have existing management information systems that will be utilized by the project to collect information related to the outputs and objectives indicators. The IAs will employ a participatory approach to involve the Mahalás and community groups, as well as, in some cases, the general citizenry of the selected towns. It is common practice in Azerbaijan for such agencies to collect data and report on a monthly basis. This process will be used to provide information to project management and for a quarterly summary by the EAs in progress reports to ADB. During the project inception period, project management (with the assistance of a monitoring and evaluation specialist, via the PIMU for the SII, and the PIU for the SIRT) will determine what additional data is required to be collected by the Baladiiyas MIS. Currently much of the information collected, and the resulting monthly reports, are done manually at the Baladiiya level. Capacity will be developed at both the EA and IA levels not only to ensure that the appropriate quality and quantity of data is collected for the project, but that it is computerized as well. This will involve computerizing the existing MIS's at each level.

One of the main monitoring tools for ADB is the Joint Annual Review (JAR). During the JAR, ADB staff (and consultants as needed) and the Project Steering Committee members form a team that reviews progress to date, participates in the PSC meeting (that takes place once a year to coincide with the JAR), approves the EAs' work plans, and carries out field visits to observe, first hand, progress of the project. The product of

the JAR is an Aide Memoire outlining an evaluation of progress and recommending any additional or corrective action that may be required of project management.

There will be three evaluations carried out related to the results of the SII, including mid-term, end-of-project and impact evaluations.

It is recommended that an international financial monitor be assigned to carry out periodic (e.g., bi-annual) audits the project as it is implemented, to ensure transparency and proper expenditures of funds. The project's PPMS is illustrated in Table 11-1 of Section 11.

1.0 INTRODUCTION

1.1 Project Background and Purpose

In August, 2004, the Asian Development Bank (ADB) undertook a fact-finding mission to Azerbaijan during which discussions were held, among others, with the State Committee for Refugees and Internally Displaced Persons (SCRI), the Ministry of Economic Development (MOED), its State Programme for Poverty Reduction and Economic Development (SPPRED) Secretariat and other government and development agencies. Visits were also made to a number of regional towns.

The ADB's Technical Assistance Report of December 2004 identified, as a top priority of the Government of Azerbaijan (GoAZ), the reduction of hardships of up to one million internally displaced persons (IDPs) and other vulnerable groups who had been forced to leave their homes during the Armenia-Azerbaijan conflict of 1988-1994. This first priority was consistent with the ADB's Country Strategy and Programme Update for 2004-2006. The ADB had already begun its assistance to IDPs through a pilot project in Mingachevir in 2002.

In 2001, Azerbaijan became a signatory to the Council of Europe's *Charter on Local Governance*. At this time, another important government commitment and priority became establishment of decentralised and democratic local self-government. Realization of progress on this second goal would both serve to strengthen links with Europe and to support regional towns to meet their future economic and social needs through a strengthened local governmental structure and implementation of specific infrastructural improvements. This second priority was also identified as an area of common interest between the ADB and the GoAZ.

At the request of the GoAZ, the ADB contracted a Technical Assistance (TA) team in March of 2005 to advance the first of these two priorities by undertaking a Project Preparation Technical Assistance (PPTA) to prepare an economically and institutionally viable **"Social Infrastructure for Internally Displaced Persons (IDPs) and Vulnerable Populations" (SII)** investment project. The aim of the PPTA, as articulated in the Terms of Reference, was:

"To improve access to basic social infrastructure for vulnerable segments of the population, including IDPs, while simultaneously building the capacity of local governments and community groups to identify their priorities, plan strategically, and strengthen service quality and coverage. This will help provide a sustainable foundation for economic development in the country's secondary towns."¹

It was decided that regional towns should be selected as the focus for this project, given the fact that considerable efforts are already underway in the country's capital of Baku and in rural areas through other programmes and loans, and because a focus on regional towns would also support the government's priority of strengthening local self-government. To avoid diffusing the impact of the SII over too large an area, it was decided that three regional towns be selected as the focus for the \$12.7 million project.

¹ ADB TAR:AZE 36014, Dec. 2004. (Annex A)

Shortly after inception of work on the PPTA, in April 2005, the GoAZ and the ADB agreed to increase the total project amount to \$49.3 million. The additional \$36.6 million will directly address the second government priority of strengthening local governmental planning, management and implementation, through investments in social infrastructure ("Social Infrastructure for Regional Towns), creation of a community-based infrastructure initiative (Local Initiatives Facility) and capacity building (CBLG) in up to eight regional towns. The project loan is expected to be between \$36-\$40 million, the balance being contributed by the GoAZ.

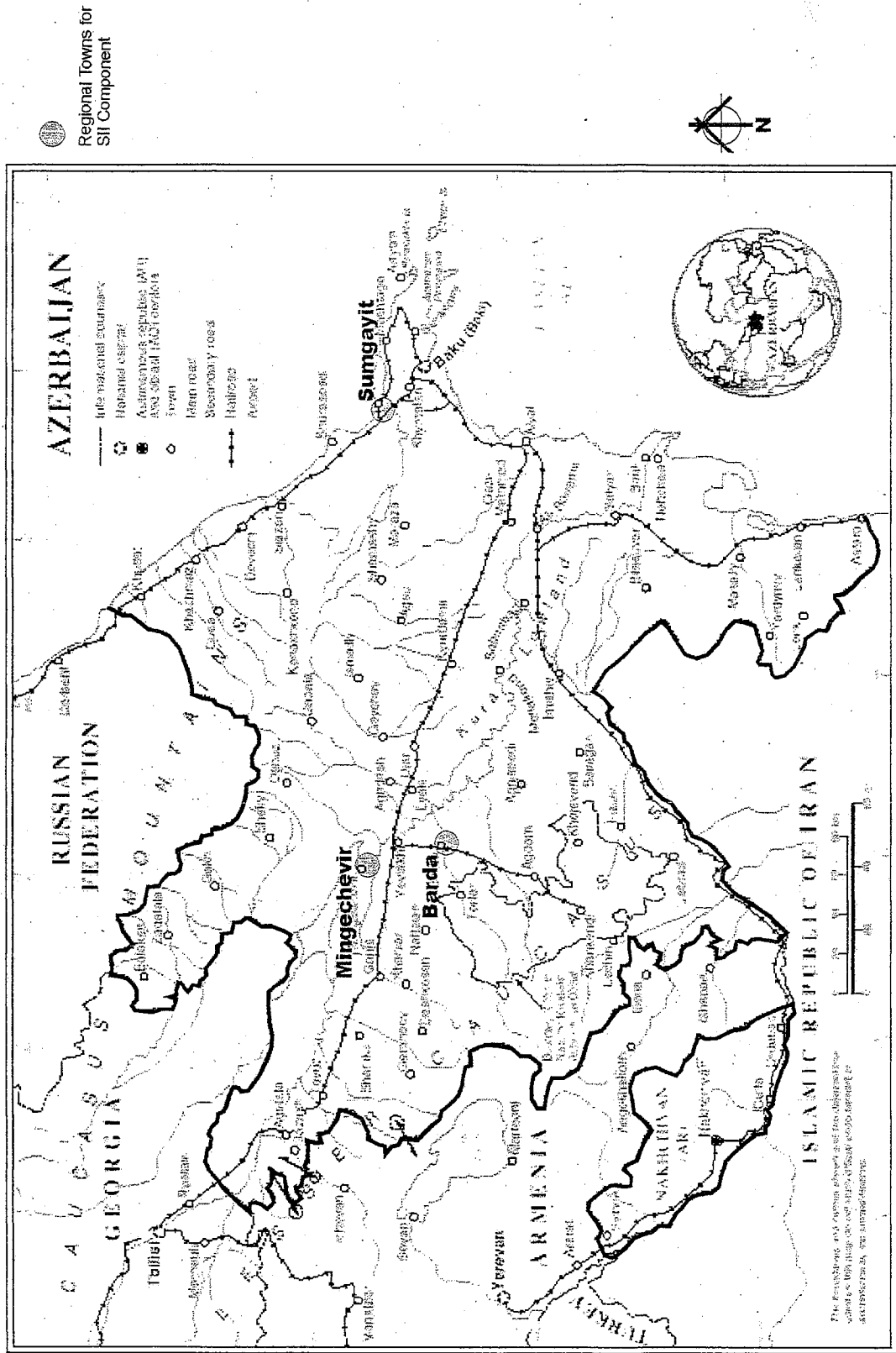
1.2 Overview of The Project

The Project consists of four components, each of which is briefly described below:

1. **Social Infrastructure for Internally Displaced Persons and Vulnerable Populations (SII):** Specific activities, addressed by this PPTA, (see Section 4) include:
 - **Social infrastructure investments for IDPs and Vulnerable Populations** will enable specific improvements to be made that have been identified as a result of the needs assessment undertaken as part of this PPTA. A first task under the SII was to select three regional towns with large populations of IDPs and vulnerable populations on which to focus a series of initial social infrastructure improvements (Mingechevir, Barda and Sumgayit were selected - see map Figure 1-1);
 - **Institutional arrangements for implementation and management** will address how, and by whom, social infrastructure investments are to be carried out; and
 - **Capacity building** will respond to needs and provide funding and staffing related to institutional strengthening/capacity building to implement the SII. This activity will also provide a stronger platform for design and implementation of the SIRT (see below). The focus will be on building capacity within local government institutions and community groups.
2. **Social Infrastructure for Regional Towns (SIRT - see Section 5),** the full details of which will be elaborated in a pending PPTA consulting contract, will provide funding to up to eight regional towns (including the three participating under the SII), for the following types of interventions, building upon the activities defined above for the SII:
 - **City/Regional Towns Development Strategies (CDS)** will involve the preparation of detailed community plans that will guide the development of the regional towns for many years into the future. The plans will, among others, identify key infrastructural needs in a highly participatory manner, as well as implementation of feasibility studies for these identified needs;
 - **Social Infrastructure Investments** will fund implementation of the high-priority infrastructural needs in the eight regional towns. Such needs could fall

Azerbaijan - Project Location

Figure 1-1



under many different sub-project types, including solid waste management, road improvements, drainage rehabilitation, construction of community centres, etc.; and

- **Institutional Arrangements for Implementation and Management** will define how, and by whom, the SIRT will be carried out.
- 3. **Local Initiatives Facility (LIF)** (see Section 6), elaborated to some extent during the first phase of the PPTA work (see Section 6), will be further refined and expanded in a pending PPTA contract. It seeks to enable community groups (CGs) within eligible regional towns to select and implement the high-priority social infrastructure initiatives that they themselves have selected through a demand- and community-driven process.
- 4. **Capacity-building for Local Government and Other Organizations (CBLG)** (see Section 7) will be required to strengthen those participating in implementation of the SIRT.

While components of the same loan, these activities are different in a number of respects and are therefore discussed individually: The SII, for example, focuses on IDPs and vulnerable populations in three regional towns, while the aim of the SIRT is to improve planning and infrastructure for the entire population of up to eight regional towns. The SII will also require a different Executing Agency, implementation structure and capacity-building plan than the SIRT. The LIF is also discussed in its own section because of the focus, scale, and institutional and operational framework that makes it different from the other activities of the SIRT. Capacity building for the SIRT and LIF are discussed in a separate section to better illustrate the functional linkages between the SIRT and LIF with respect to the strengthening activities that are proposed.

As the additional towns and sub-project investments for the SIRT and LIF cannot be defined within the scope of this initial PPTA, all of the detailed feasibility studies and related social impact, environment, training, capacity building, and financial and economic analyses for the SIRT are not included in this report. These will be addressed in a pending phase. While some order-of-magnitude costs and other data are presented, and the basic framework for LIF has been prepared, more detailed work will be undertaken during the second phase of the PPTA's elaboration.

1.3 Project Framework

A Logical Framework Analysis (LFA) was carried out and a Project Framework was prepared, as appended to this report (Annex E).

1.4 PPTA Team, Methodology and Activities to Date

The PPTA has been prepared by **Blackstone Corporation Resource Management Consultants Inc.** (Canada) in association with **GHK International** (UK), **Habico** (Canada), and **Sinergetics and Sulaco of Baku**, Azerbaijan. The team included international and local specialists in institutional strengthening,

urban planning, social sciences, environmental assessment, engineering, financial analysis, and monitoring and evaluation, among others.

The PPTA was carried out as described in the Terms of Reference included as Annex A to this report. The study methodology involved a highly participatory approach. It included iterative visits to the regional towns under study and consultations (i.e., key informant interviews; gender-disaggregated focus groups; in-depth household case studies) with over 200 stakeholders, including national and local government, non-governmental organizations (NGOs), community-based organizations (CBOs), and many IDPs and other community members regarding key social infrastructure and institutional strengthening needs. The study process also included detailed review of the considerable body of secondary source materials that are available as a result of the work of the GoAZ, the donor community and the many humanitarian agencies that have been active in the country for several years (Annex Y).

PPTA milestones have included the following:

- Project mobilisation and rapid appraisal of IDPs and vulnerable populations' needs, April 7-17, 2005;
- Submission of Inception Report, 18 April 2005;
- Submission of Draft Interim Report, 30 May 2005;
- Submission of Final Interim Report, 15 June 2005;
- Submission of Draft Project Outline, 5 July 2005;
- Submission of Final Project Outline, 12 July 2005;
- Tripartite Meeting, 6 July 2005;
- Stakeholder Workshop, 20 July 2005;
- First Draft Report 7 August 2005;
- Final Draft Report October 2005;
- Final Report December 2005.

1.5 Report Format

The report has been organized into the following sections, with Annexes attached:

- 2.0 Problem Definition and Socio-Economic Context
- 3.0 Institutional, Policy and Legal Context
- 4.0 Social Infrastructure for IDPs and Vulnerable Populations (SII)
- 5.0 Social Infrastructure for Regional Towns (SIRT)
- 6.0 Local Initiative Facility (LIF)
- 7.0 Capacity Building
- 8.0 Initial Environmental Evaluation (IEE)
- 9.0 Social and Poverty Assessment
- 10.0 Project Cost and Financing Plan
- 11.0 Project Performance Management System (PPMS).

2.0 PROBLEM DEFINITION AND SOCIO-ECONOMIC CONTEXT

The need for the Project as defined in Section 1 is urgent. Social infrastructure in Azerbaijan has been deteriorating for many years, as a result of war, the influx of IDPs, economic collapse and many other factors. This section describes the socio-economic context for the Project, followed by a discussion of the institutional and legal/regulatory setting that currently exists.

2.1 Historical Overview

After regaining its independence from the Soviet Union in 1991, Azerbaijan, like so many other former Soviet states, began the difficult transition towards a market-based economy. In the early 1990s, state-owned enterprises, which had employed millions of people but which had lost the largely guaranteed markets that had existed under the centralized, directive-driven economy of the Soviet regime, underwent widespread closure and/or downsizing causing massive unemployment, poverty and the emigration of labour.

These difficult times were further exacerbated by the armed conflict with Armenia that occurred between 1988 and 1994 that resulted in the occupation by Armenia of over 20% of some of the most productive territory of Azerbaijan, including the enclave of Nagorno Karabakh (3%) and seven adjacent regions (17%), and the influx of over one million refugees and internally displaced persons (IDPs) to the unoccupied regions of Azerbaijan. As one source has noted, "Azerbaijan may have the largest proportions of displaced people per capita of any country in the world...every tenth person is a refugee from the conflict with Armenia."²

Between 1990 and 1995, Azerbaijan's GDP fell by 60%.³ Protracted decline was observed in all sectors of the economy amid hyperinflation and high budget deficits. In response, the administration undertook economic reforms to create macroeconomic stability and to create an improved environment for foreign investment and support, resulting, in 1996, in the first signs of positive economic growth. The government signed multi-million dollar contract with the world's major oil companies to capitalize on the sizeable but mostly untapped off-shore oil resources of the Caspian Sea. Fuelled by development of the oil sector, the economy has boomed. GDP growth has averaged about 10% since 2000 and is expected to slightly pick up in the coming years:

Table 2-1: Macroeconomic Overview, 2001-2005

	2001	2002	2003	2004	2005 ²
Population (000) ¹	8,081	8,141	8,202	8,265	8,347
GDP, bln AzM	26,619	29,602	35,053	41,872	49,010
GDP, bln USD	5.7	6.0	7.2	8.5	9.9
GDP per capita, USD	702	755	878	1,039	1,236
GDP growth, %	9.9	10.6	11.2	10.2	16.5
Government revenues, bln AzM	3,919	4,551	6,127	7,406	8,798

² De Waal Thomas. *Black Garden: Armenia and Azerbaijan through Peace and War*. (New York University Press, 2003) p.218.

³ www.eia.doe.gov/emeu/cabs/azerbjan.html

Public deficit, % of GDP	-0.4	-0.4	0.1	-0.8	0.02
Poverty rate ³	49	46.7	44.7	40.9	Na
Sources: State Committee on Statistics, International Monetary Fund, MOED.					

1. At the beginning of the year

2. Annualized based on the first six months

3. Ministry of Economic Development

Export and import volumes, mostly oil-related, have expanded faster than GDP. GDP grew by 10.2% in 2004 and is expected to grow at 14.5% in 2005, rising further to 19.0% in 2006 and 22.0% in 2007:

Table 2-2: Macroeconomic Projections, 2005-2007				
	2005	2006	2007	
GDP growth, %	14.5	19.0	22.0	
Investment/GDP, %	35.0	30.0	30.0	
Inflation, %	5.5	4.5	4.0	
Money supply growth, %	31.0	35.0	38.0	
Public deficit/GDP, %	-1.1	-1.0	-1.0	
Source: Adopted from Asian Development Outlook 2005, ADB				

Investments in the ACG oil fields and the Baku Tbilisi Ceyhan (BTC) pipeline have driven and will continue to drive the economic growth in the oil sector with spillovers to other industries. Of the various economic sectors, construction has grown the fastest, having benefited from oil sector investments, from a building boom in the capital and from foreign-funded infrastructure projects. It has more than quadrupled in size during the last 3 years. Despite agriculture's importance as an employment provider (accounting for nearly 40% of total employment), it contributes only roughly 6% of the GDP growth. Non-oil industries are showing signs of recovery (metallurgy, agro-processing, textiles, and chemical). However, since Foreign Direct Investment (FDI) is oil-bound and the investment climate is unfavourable among others because of perceived corruption, bureaucracy and poor physical infrastructure, the growth in these sectors may not be long-lasting. The strong economic performance has been accompanied by stable exchange rates and low inflation. The National Bank is targeting an inflation rate of 5% in 2005 and 2-3% in the following years.

Notwithstanding the economic boom described above, a recent Progress Report, produced by the State Programme on Poverty Reduction and Economic Development (SPPRED), notes that at least 44.7% of Azerbaijanis continue to live below the absolute poverty line.⁴ The conflict and the difficult transition to a market economy have taken a particularly serious toll not only on IDPs/refugees but also on non-IDP "host" populations, particularly in regional towns. In this regard, some regional towns experienced an (in some cases) massive influx of internally displaced persons and refugees at the same time their local economies were collapsing and local jobs were disappearing.

⁴ Republic of Azerbaijan. *State Programme on Poverty Reduction and Economic Development (SPPRED) Progress Report 2003/2004* (Baku, 2005) p.32.

To address the needs of IDPs, international support from donor and humanitarian agencies began in the 1990s and came to involve, between 1998-2003, an estimated 26 international NGOs and 16 national NGOs. However, as of 2005, relief programmes aimed at alleviation of the suffering of IDPs and refugees are downsizing or, in many instances, phasing out, their support. The multi-year \$56 million Azerbaijan Humanitarian Assistance Programme (AHAP) programme of USAID/Mercy Corps will end shortly and will leave a big gap. Save the Children is also down-sizing its presence, as is World Vision. Various key informants have noted the decline in assistance in recent years, particularly in regional towns.

2.2 IDPs, Non-IDPs and Poverty – An Overview⁵

Azerbaijan's IDP population consists of the following:

- 60,000 Azerbaijanis driven from Nagorno Karabakh;
- 600,000 Azerbaijanis driven from the seven adjacent occupied regions;
- 100,000 Azerbaijanis forced to leave other territories adjacent to Armenia.

Refugees include:

- 250,000 Azerbaijani residents of Armenia forced to leave;
- 50,000 Mesketians exiled from Central Asia in 1990;
- 11, 000 seeking asylum from other countries.

Whereas most registered refugees from Armenia have been permanently settled and integrated with the local population, IDPs still live in concentrated groups in 58 districts. The highest concentration is in Baku (26%), followed by Fizuli (9%), Barda (8.5%) and Sumgayit (7.7%). With the exception of some 21% who have settled with relatives and 8.2% who were settled in houses built with the help of donor organisations and by State Committee for Refugees and IDPs (SCRI), the majority (almost 70%) of IDPs still live in highly unsatisfactory accommodations with insufficient access to water and sanitation facilities. Currently about 12.6% are housed in temporary structures (tent camps, dugout houses, unfinished constructions, railway cars) while the remainder live in public buildings (13.5%), educational institutions (6.6%), dormitories (14%), health centres (4.4%), farms (10.3%) and illegally occupied apartments (4.1%)⁶.

According to a three-year State Programme on Poverty Reduction and Economic Development (SPPRED), some 63% of IDPs were living in poverty in 2001, and 70% were unemployed.⁷ It found that health problems were a particular concern among IDPs. In its recent Progress Report, the SPPRED Secretariat notes that while IDPs living in poverty fell to 50% in 2003, they remain one of the most vulnerable groups..⁸

⁵ See report section on Social and Poverty Assessment, which provides additional economic information.

⁶ The statistics in this paragraph is derived from the Annual Report 2003 of the State Programme on Poverty Reduction and Economic Development.

⁷ Republic of Azerbaijan. State Programme on Poverty Reduction and Economic Development (SPPRED) 2003.

P.7.

⁸ Republic of Azerbaijan. State Programme on Poverty Reduction and Economic Development (SPPRED) Progress Report 2003/2004 (Baku, 2005), p.35.

A 'Living Standard Survey' conducted in 2003 by the Statistical Institute of the Azerbaijan Republic (SIAR) covered 1,014 households in the areas densely settled by IDPs in four regions. The Survey used random probability sampling methodology. Barda was one of the regions included with a sample size of 269. It revealed that 80.7% of households were unemployed. Most, or 52.1% of households, were dependent on external aid. Only 7.9% had personal earnings and 36.6% reported dependency on aid supplemented by personal earnings. As shall be discussed later, in the context of the Social Infrastructure for IDPs and Vulnerable Populations (SII), consultations undertaken during fieldwork confirm the extremely high rate of unemployment and often desperate circumstances of IDPs.

While humanitarian aid has largely focused on IDPs, it is clear from consultations with government, donor and humanitarian agencies and the people themselves, that many non-IDP residents are in need of assistance. The SPPRED reports indicate that almost half of the entire population lived at or below the poverty line in 2001, and that in 2003 the total was only slightly less at 44.7%.⁹

An important contribution to the analysis of poverty in Azerbaijan has been a recently published Food Security and Nutrition Survey by the World Food Programme¹⁰. Among its findings (supported by anecdotal information by the Study Team) is that nearly 20% of sampled *non-IDP* households were headed by women, and an additional one-third by an elderly person (over 60 years old). Forty per cent of the households had a chronically ill person, at least half of whom were the heads of households. Just over 20% had at least one member who was disabled, one-third of them being heads of households¹¹. Malnutrition was also found to be a serious issue, one suffered not just by IDPs, who have received a food subsidy (\$6.1 U.S. per person per month) but by many local residents who have had no access to food aid but who have had to cope with unemployment and support of the aged, young and ill persons in their households. The line between IDPs and local residents as far as poverty and vulnerability are concerned has blurred to a very large degree, such that the population as a whole can be considered as largely vulnerable, particularly in regional towns where, as discussed below, the benefits of an economic boom have not been felt.

2.3 Demography and Urban/Rural Differences

Demographic trends are key to an understanding of socio-economic life in Azerbaijan. The total population as of 2004 was 8.265 million. Since 1990, a total of roughly 250,000 people have come to the country, while, officially, some 432,000 have left, although this latter figure is likely much higher as many migrants do not use legal channels.¹² While the rate of out-migration has fallen in recent years, there continues to be a higher rate of out, as compared to in-migration.¹³ Anecdotal information gained during PPTA consultations indicated

⁹ Republic of Azerbaijan. State Programme on Poverty Reduction and Economic Development (SPPRED) 2003, p. 7, and Progress Report 2003/2004 (Baku, 2005) p.33.

¹⁰ World Food Programme. Food Security and Nutrition Survey (Feb., 2005),

¹¹ Ibid. Executive Summary, p.1.

¹² Republic of Azerbaijan. State Programme on Poverty Reduction and Economic Development (SPPRED) 2003, p. 7, and Progress Report 2003/2004 (Baku, 2005) p.24..

¹³ Ibid.

that many of those who have left were young men searching for work to support themselves and/or their families.

Since 1990, the sharp decline in the birth rate (from 26.3 births/1,000 in 1990 to 14/1,000 in 2003) has led to the aging of the population such that the share of older people is growing and the proportion of young people declining. At the same time, the proportion of people of working age has increased from 56.8% in 1999 to 64.2% in 2004.¹⁴ Reflecting these trends, one of the main problems found to face families interviewed as part of the PPTA was the difficulty of the working population to find jobs to support their family members who often included aged and young dependants.

While official data indicate that the proportion of urban population actually fell, (from 54.2% in 1990 to 50.7% in 2003¹⁵), it also identifies a recent reversal of this trend, as in 2003 there was a increase in the proportion of Azerbaijanis living in urban centres.¹⁶ Other sources (e.g. USAID and the United Nations) have estimated that the urban:rural ratio is closer to 60:40.¹⁷ Baku, which has received many of the economic benefits of oil revenues, currently contains approximately 38% of the country's total urban, and 20% of the entire country's population.¹⁸ Some of the factors/events possibly contributing to the lower than likely true estimates of urban population include the following:

- 750,000 IDPs moved from largely rural settings into urban areas during the Armenian conflict. They remain officially registered in their points of origin and, consequently, do not show up in urban statistics. The younger generation is growing up in urban areas;
- 250,000 refugees reside primarily in urban centres, but are not part of official statistics;
- Between 1 and 2 million workers, many of them rural, are living and working in Russia but remain in Azerbaijan's rural statistics;
- Many other economic migrants have moved into the greater Baku-Sumgayit region to seek employment, but remain officially registered in their rural homes;
- The armed conflict saw the out-migration of a significant number of Armenians, most of whom had resided in Baku, thereby contributing to a reduction in the urban, vis-a-vis- the rural proportion of the overall population;
- Over the past fifteen years, agricultural markets were lost and rural infrastructure (e.g. drainage and irrigation) ill-maintained, undermining the

¹⁴ Republic of Azerbaijan. State Programme on Poverty Reduction and Economic Development (SPPRED) Progress Report 2003/2004 (Baku, 2005) pp. 23-24.

¹⁵ Republic of Azerbaijan. State Programme on Poverty Reduction and Economic Development (SPPRED) 2003, p. 7, and Progress Report 2003/2004 (Baku, 2005) p.24...

¹⁶ Ibid.

¹⁷ www.makingcitieswork.org/files/pdf/e-europe-central-asia/Azerbaijan.pdf and www.unhabitat.org/habrd/conditions/westasia/azerbaij.htm

¹⁸ Derived from: Cities Alliance: Cities Without Slums Application Form (February)

sustainability of rural households and inducing some household members to migrate to urban centres in search of work..

How the benefits of economic growth have been distributed in terms of income and real living standards (not measured by income, but by quality of life) remains largely understudied. The recent SPPRED Progress Report has indicated that it is difficult to get an accurate estimate of inequality in the country and that there is a need to expand and deepen the data and analytical base.¹⁹ Nevertheless, it is clear that a significant disparity exists between Baku and regional towns where the benefits of the oil and gas-fuelled economic boom have yet to reach. Virtually all of these regional towns saw their industries close or downsize with the collapse of the Soviet Union causing severe unemployment. The situation was exacerbated by the influx of IDPs which had the effect, among others, of worsening the unemployment crisis and placing increased pressure on already aging and inadequate Soviet-era social infrastructure.

In recognition, among others, of the need to reduce the disparity between Baku and the remaining urban centres, and of its commitments under the council of Europe's Charter on Local Governance (see Section 1), the Government of Azerbaijan committed itself, in 2001, to decentralization and to the transformation from a highly centralized decision-making apparatus to one that exhibits strengthened local self-governance and economic self-reliance. In 2003, the GoAZ initiated a State Program on Social-Economic Development of Regions for 2004-2008 that establishes a decentralization plan aimed, among others, at stimulating economic development, improving infrastructure and utilities and promoting renewal of the country's regions. Progress towards decentralization has been slowed by lack of capacity at the local level, lack of a history of entrepreneurship and of self-governance, weak local economies, an aging infrastructural base and an underlying disempowerment of local resident and IDP populations awaiting satisfactory resolution of the Nagorno-Karabakh conflict.

2.4 GoAZ/International/National Agencies' Activities to Address Key Issues

It is important, as a context, to recognize the recent/on-going work of various agencies to address issues of relevance to areas covered under this PPTA, to promote cooperation and avoid duplication of effort. The following Table and discussion briefly summarize areas of effort and interest. A more detailed description can be found in Annex C.

Table 2-3: Selected GoAZ and International Agency Activities in Azerbaijan

Agency	IDPs/Refugees	Regional Towns Infrastructure	Rural Developm ent	Local Self Government/C ivil Society
GoAZ	✓	✓	✓	✓
ADB	✓	✓		✓
World Bank	✓		✓	

¹⁹ State Programme for Poverty Reduction and Economic Development, Progress Report (2003) p. 36.

USAID	✓		✓
GTZ			✓
Council of Europe			✓
Mercy Corps *	✓		
UNHCR	✓		
UNDP		✓	✓
World Food Programme	✓		
Int. Migration Org.	✓		
Norwegian Refugee Council	✓		
IFES			✓
OSCE			✓
Save the Children*	✓		✓
Oxfam/ARAN			✓
World Vision*	✓		
CHF*	✓		

*Programme Ending or Significantly Downsizing

2.4.1 IDPs/Refugees and Vulnerable Groups

Many agencies have contributed funds and programming to alleviate the suffering of IDPs, refugees and other vulnerable groups, among the largest contributors being:

- The GoAZ (through the State Committee for Refugees and IDPs - SCRI, the State Oil Fund - SOFAR, and the Social Fund for Development of IDPs – SFDI). By Its Presidential Decree #298 of 2004, the government has committed to move all IDPs living in tent camps, “Finnish” settlements and railway cars to new housing. However, as noted in Section 2.1, the housing problem has not been solved. The situation of many IDPs remains dire, in terms of inadequate housing and poverty;
- World Bank, through its major contributions to SFDI, first in 1999 (\$10 million) and most recently, in 2005, through its Economic Development Support project (\$11.5million);

- USAID, which funded Mercy Corps to oversee a seven-year \$56 million Azerbaijan Humanitarian Assistance Programme (AHAP), and which utilized the services, among others, of World Vision, Save the Children, World Vision, the Community Housing Foundation (CHF) and the International Migration Organization;
- ADB, which funded a pilot IDP housing project in Mingechevir in 2002;
- Norwegian Refugee Council, which has undertaken highly effective rehabilitation of dormitories and other temporary housing.

2.4.2 Regional Towns Infrastructure

Under a pending Cities Alliance initiative, the ADB and UNDP will assist the SPPRED Secretariat of the Ministry of Economic Development to develop and refine City and Regional Development Strategies in three regional towns (Ganja, Sheki and Mingechevir). It will address economic and environmental infrastructure development needs and improvements to labour market and social services, regional linkages, etc. The ADB is also funding a feasibility study for the funding of a highway linking different parts of Azerbaijan.

The other major Regional Towns initiative identified is the one proposed under the PPTA that is the subject of this report. There appears to be no overlap with other agencies' initiatives and is consistent with the State Programme on Socio-Economic Development of Regions mentioned in Section 2.3.

2.4.3 Rural Development

The most significant programme to stimulate rural development and agriculture is the World Bank-funded Azerbaijan Rural Investment Project (AZRIP). Its objective will be to fund micro-projects that improve economic and social infrastructure throughout Azerbaijan's rural area. The model for AZRIP is highly community- and demand-driven and has provided a useful context for the preliminary design of the Local Initiatives Fund (LIF), as discussed later in this report.

2.4.4 Local Self-Government/Civil Society Strengthening/Decentralization

As Table 2-3 indicates, there are several agencies involved in strengthening local government and civil society. These activities are discussed in the next section which focuses on the institutional context, and in Annex C.

3.0 INSTITUTIONAL, POLICY AND LEGAL CONTEXT FOR PROVISION OF SOCIAL INFRASTRUCTURE SERVICES IN REGIONAL TOWNS AND FOR ASSISTANCE TO IDPS

This section presents an analysis of the current institutional, policy and legal context within which provision of social infrastructure occurs in regional towns in Azerbaijan. Gaps and issues associated with the current institutional/legal/regulatory/policy framework are also highlighted. It should be noted that a separate analysis of the specific institutional situations and issues found in each of the three regional towns selected to date to participate in the Project are provided later in this report, as are recommendations regarding potential solutions to issues identified in this section. **It is also recommended that Annex G - Section 4 be referred to for elaboration of the legal context and its implications.**

3.1 The Formal Institutional, Legal and Policy Context

Under the Constitution of Azerbaijan of 1995, the highest executive authority is the President, who, among others: appoints the Prime Minister (Article 118); can sign or not sign bills sent to him by the legislature/parliament (Article 110); selects his Cabinet of Ministers who are heads of executive power at the central level (Article 114); and appoints the heads of local executive power bodies, or Local Executive Authorities (LEAs) (Article 124). Under Article 124, the President determines "the limits of authority of the local executive power bodies". These central and local executive authorities are, in turn, charged with implementing the state's economic and social programmes and policies (Article 119). The LEAs oversee such implementation in each of Azerbaijan's 66 rayons (districts) and eleven cities. In addition, the President can create State committees and other entities to undertake special projects. The State Committee for Refugees and IDPS (SCRI) would be one example of this.

Section IV, Chapter IX of the Constitution of 1995 enshrined local self government and mandated formation of municipalities through elections within two years (i.e. by 1997), but it was not until 1999 that, with the introduction of municipal elections, a new level of government was added at the local level as some 2,673 municipalities (*Baladiyyas*) were created and over 22,000 officials were elected.²⁰ Figure 3-1 provides an overview of the resulting national and local government structures.

Establishment of local self-government in Azerbaijan has raised complicated issues regarding the relationship between the executive and municipal branches of government as far as division of decision-making, areas of responsibilities and funding are concerned. It has created conditions where there are essentially two parallel governmental entities operating at the local level, one appointed and the other elected. As shall be discussed further below, the Constitution does not explicitly indicate whether the concept of municipalities is founded on the principle of decentralization of state authority or on the principle of local autonomy.

²⁰ Mamedova, Meriban et al. *Local Government in Azerbaijan*. P.5.

In order to better understand these issues and their implications for the PTPA a brief review of the legal and policy framework is provided below.

Under Article 144 of the Constitution, municipalities are given the following range of authority:

- Elections of the chairman of a municipality, his deputies, permanent and other commissions;
- Establishment of local taxes and duties;
- Approval of a local budget and reports on its implementation;
- Possession of municipal property, use and disposal thereof;
- Acceptance and implementation of local programmes of social protection and social development, economic development and ecological programmes.

Article 144 also notes that “[M]unicipalities may be given additional authorities of legislative and executive power. To implement these authorities, respective financing is required. Implementation of such authorities will be controlled respectively by legislative and executive power bodies.” This latter clause infers that municipalities could undertake implementation of work beyond their defined mandate, but such implementation would be overseen by the executive and legislative branches of government. Under Article 146, “[L]egal protection of municipalities, compensation of additional expenditures resulted from decisions made by state bodies are guaranteed”, indicating that any costs associated with transfer of responsibility from the executive branch to municipalities should be covered by the executive authority.

In July, 1999, the **Law on the Status of Municipalities** (see Annex D) was passed into law, providing a fuller picture of the GoAZ’s vision of local self government. As discussed below, this Law, while providing clarification, also introduces a number of interesting issues. Among others, the Law:

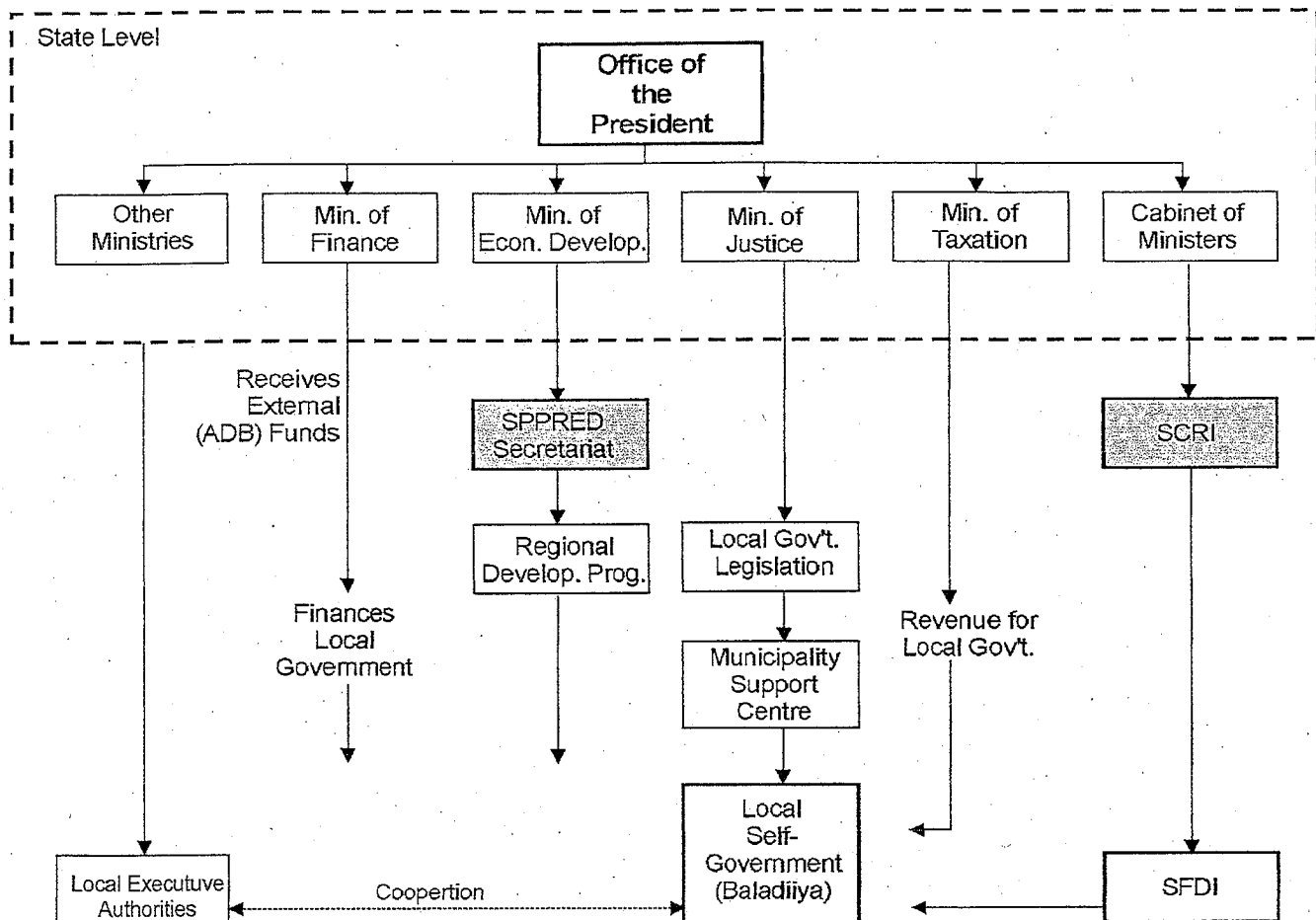
- Defines local self-government as “a non-government system” (Article 1): The law indicates that “municipalities and their bodies are not included in the system of state bodies. State bodies and state officials are not permitted to implement local self-government” (Article 14.4). “Municipal bodies – elected or other bodies [are] not included in the system of state bodies” (Article 2.2) As a recent report²¹ undertaken for USAID elaborates:

“[municipalities] are not technically registered as government organizations. They are part of a parallel structure in which the excom [local executive authority] represents the government and municipal council represents the community. They therefore formally fall within the purview of “non-governmental organizations”, even though they are bodies of government with the ability to conduct some activities usually associated with government, such as collecting taxes.”

²¹ Management Systems International. Azerbaijan Civil Society Sector Assessment. (Jan. 11, 2005) p.7.

Institutional Context

Figure 3-1



Thus, under the law, local self-government is, as one source²² has described, a one-tier system whereby municipalities are not part of public authorities. They are not a local extension of a comprehensive national, regional and local governmental continuum of authority, but rather an entity unto itself, under the law;

- Defines a municipality's primary role to be the addressing of "local issues": A municipality is "a form of local self-government within a territory defined by the Law. A Municipality has its own property, local budget and elective self-government bodies and it resolves important local issues..." (Article 2.1)
- Further defines the realm of areas of local interest/responsibility of municipalities (Articles 4.2, 5.1 and 6.1) to include:
 - **local social programmes** which are *not* mentioned in the state's social development programmes or issues. Areas of interest include: education; health; culture; buildings' maintenance and maintenance of sanitary services; organisation, development and maintenance of local water supply and sewage; construction and maintenance of locally significant roads; organisation of local transport and communication services; and development of local infrastructure;
 - **local economic development programmes**, which must *not* "interfere with the state's implementation and functions", but which possibly includes agriculture industry, communications and transport, and more efficient use of property given by the state;
 - **local ecological programmes** *not* mentioned in state programmes, possibly including municipal clean-ups, waste collection and recycling; protection of water and air from pollution, and joint ecological measures in conjunction with neighbouring municipalities.
- Provides for development of associations of municipalities;
- Enables ownership of "municipal property", which may be used, leased, privatised/sold;
- Enables municipalities to establish businesses to generate revenues.

In December, 1999, the **Law on the Basis of Municipal Finance** was passed, setting out means by which local self-government can sustain itself financially. The Law defines the **sources of municipal finance** and principles of its usage, the basis for local budget processes and powers of Baladiiyas, and cooperation with relevant Executive Authority Bodies. Sources and expenditures of municipal finance are regulated by the Constitution of the Azerbaijan Republic. The law establishes the independence of local Baladiiya budgets as separate from State budgets and from State interference or responsibility (Article 4.1). The local budget is a financial resource created and used for realization of self-governance

²²

Aslanov, Aidyn M. Present State of Local Self Government in Azerbaijan and Trends of Reforms. (2003). Section 3.3

principles in accordance with the status of Baladiiyas and the implementation of powers defined by the Constitution and Laws of the Azerbaijan Republic. Provision is made, however, for Baladiiyas to receive subsidies or subventions from the State when required to make up revenue shortfalls for undertaking planned programmes, assuming State resources are available, or when Baladiiyas incurs costs at the request of the State. The law gives Baladiiyas the right to establish a bank account and to borrow funds from banks and other credit institutions. The Baladiiyas are also required to report budgets and their implementation to the public. It is important to note that the law also makes provision for the transition from State tax collection to Baladiiyas tax collection²³. The law also defines the economic basis of municipal finance as including: municipal property; municipal lands²⁴; local budget and off-budget funds; and municipal activity in production, services and other economic activities. Thus, for the most part, Baladiiyas rely on internally generated income to fund their operations. Potential revenue sources, as detailed in the *Law on Municipal Finance* (Article 7) include:

1. Local Taxes

- Land tax from individuals
- Property tax from individuals
- Taxes (royalties) from construction material mining operations on municipal lands

2. Service Fees

- Advertising on public property
- Parking fees
- Tourism tax - hotels, sanatorium, resorts

3. Land - rent / lease of municipal land

4. Income (profit) from municipally owned enterprises

5. Subsidy from state budget

6. Compensation from state to cover state-mandated activities

Rules for calculation, payment and rebating of **local taxes** are defined in the Tax Legislation, 2005. Baladiiyas have the authority to select the local taxes and duties and decide their rates within the prescribed minimum and maximum rates by a two-third-majority vote. On the basis of an arrangement with the state tax collection authorities, effective August 2000, Baladiiyas are mandated to collect land and property taxes.

The payers of land tax are the physical persons and enterprises that own or use land plots (Article 204). Whereas the physical persons pay land tax to the Baladiiya, enterprises pay the tax to the state taxation department. The base for

²³

The vast majority (some report as high as 98%) of potential local tax is collected by the LEA rather than the Baladiiyas, and full State and public recognition of the Baladiiyas is still absent

4. The Law on Land Tax (1996) regulates calculation and payment of the land tax. It is calculated depending on the purpose of use, the area, geographical location and quality of land. It is determined by multiplying land quality points (established for each cadastral pricing district) by 300 manats.

the tax is the land area. The base is low, calculated in accordance with the rate determined based on percentages of a conventional financial unit. The base for the levy of property tax is the valuation of the property (apartment/buildings) determined by the executive administration (Cabinet of Ministers) and updated (there is no provision for updating on a periodic basis). The prescribed tax rate is 0.1% of the property value with an initial exemption of AzM27.5 million (\$5,500)²⁵. The tax on property owned by the individual is collected by the Baladiiyas. Taxes on all other properties are collected by the state. An additional basic exemption from tax is allowed to a select category of persons, mainly national and war heroes, winners of gallantry awards, widows of war hero etc. The value of the property for tax is ascertained based on the cost of construction in the year of its construction, updated for additions/modification carried out from time to time. There is no tax buoyancy, as the value remains constant over the years.

With respect to **mining tax royalties**, physical entities and enterprises extracting the minerals from subsurface strata of the earth are covered. Baladiiyas are permitted to collect tax on construction materials (e.g. mortar sand, crushed stone, ceramide clays) at AzM27.5 m3 of extraction. Tax on all other extraction is collected by the state.

Service fees include fees from advertising on public property, tourism tax (hotels, resorts) and parking fees.

As far as **land rental fees** are concerned, revenue is possible from a variety of sources in this category including such things as small shops and tea houses located on municipal lands. In practice, many simply refuse to pay, while the rents charged to others are so low as to be not worth the effort. A tea shop may pay \$2-5 per month, an amount far out of proportion with the value of where they are and what they generate. Some Baladiiyas are, in effect, increasing the rent on these operations by making individual entities responsible for landscape maintenance around their facilities.

Though the State budget for 2003 envisaged allocating **subsidies** of AzM25 billion to Baladiiyas, they received only AzM5 billion. This amount is being reduced, and Baladiiyas report not receiving even the small amounts due to them. In 2005, subsidies of AzM10 billion were allocated. The standard state transfer is based on a simple per capita calculation, although special requests for additional funding can be made. The record of receiving either of these is poor. In order to receive subsidies from the state budget, the Baladiiyas are expected to comply with certain procedures and to provide audited statements. Most of the budgetary allocations remain undisbursed due to the non-fulfilment of the requirements, thereby failing to capitalise on the opportunity to obtain subsidies.

Baladiiyas were able to collect a **vehicle property tax**. This revenue source was recently withdrawn and the collection transferred to the State.

An updated **Law on Budgetary System** was adopted in 2002, a move that was considered urgently needed to replace the obsolete law of the late 1990s. One of

²⁵

To illustrate: the annual tax on a property with valuation at AzM100 million is AzM72,500 (\$14.5)

the reasons cited²⁶ for the need for the new law was the decentralization of power to municipalities and the inadequacy of the earlier law to specifically deal with municipal budgets. Under this new law, municipalities are recognized as fully self-governing entities that are responsible for preparing, approving and executing their own budgets, provided that they can do so from their own revenue resources. If they seek subsidies from the State, then they become subject to the government's procedures and priorities for financing.²⁷ Sources of money to finance deficits/gaps in municipal budgets are restricted to subventions from the state. Municipalities do not have the right to issue securities to finance shortages in their budgets (Article 11.14) As the source noted,

"Without this clarity, the municipalities could set the limits of their budget deficit based on their own goals, which sometimes run counter to the central government. Converting the liabilities of local self-government bodies into cash is a serious threat to a single monetary policy steered by the National Bank of Azerbaijan."²⁸

In January, 2000, the **Law on Territories and Lands of Municipalities** and the **Law On Transferring Assets to Municipal Property** were enacted, establishing mechanisms for identifying and transferring municipal property from the State to municipalities. LEAs and the State Land Committee were required to implement the Laws but "the timetable for preparation and handing over of documents and lands is to be defined by the relevant executive authority" (Article 2, Law on Territories and Lands of Municipalities).

In 2001, Azerbaijan became a member of the **Council of Europe**, making a series of commitments with specific deadlines in order to meet European standards as regards legislation and conventions and practice. One of these commitments was to move towards conformity with the **European Charter of Local Self-Government**. The Charter Preamble cites the values of local self-government, among them:

- "Local authorities are one of the main foundations of any democratic regime";
- "The existence of local authorities with real responsibilities can provide an administration which is both effective and close to the citizen";
- "Safeguarding and reinforcement of local self-government...is an important contribution to...the principles of democracy and decentralisation of power."
- "This entails the existence of local authorities endowed with democratically constituted decision-making bodies and possessing a wide degree of autonomy with regard to their responsibilities...and the resources required for their fulfilment."²⁹

The Charter sets out the standards that must be met by signatories in a set of eighteen Articles, a selection of which are cited below:

²⁶ Open Society Institute Public Finance Monitoring Centre. *Moving Towards Budget Transparency: Improvements in Azerbaijan's Budget Laws*. (2004) p.6.

²⁷ *Azerbaijan Public Investment Policy and Efficiency Project Statement of Work*, p. 3.

²⁸ Ibid. p.11.

²⁹ Council of Europe. *European Charter of Local Self-government*. Strasbourg, 15 October, 1985.

- "Local self-government denotes the right and the ability of local authorities...to regulate and manage a substantial share of public affairs under their own responsibility..."(Article 3.1);
- "Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law" (Article 4.4);
- "Administrative supervision of local authorities shall be exercised in such a way as to ensure that the intervention of the controlling authority is kept in proportion to the importance of the interests which it is intended to protect"; (Article 8.3)
- "Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own..." (Article 9.1);
- "the financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace...with the real evolution of the cost of carrying out the tasks"; (Article 9.4)
- Local authorities shall be entitled, in exercising their powers, to co-operate and, within the framework of the law, to form consortia with other local authorities..." (Article 10.1);

Since that time, the GoAZ has undertaken a number of policy and other legislative actions³⁰ that reflect its efforts to elaborate municipal roles and functioning:

- The State Programme for Poverty Reduction and Economic Development (SPPRED) prepared by the SPPRED Secretariat within the Ministry of Economic Development identifies decentralization and the creation of municipalities as an important that can contribute to poverty reduction "by improving allocation of resources at the local level, promoting regional development and allowing local communities to participate more actively in decision making...the municipalities can also play an important role in targeting assistance to the poor...prepare proposals on social and economic policy issues which would have an effect on improving living standards in their locality..."³¹
- The State Programme on Social-Economic Development of Regions for 2004-2008 prepared by the Ministry of Economic Development cites as one of its objectives, "increasing municipalities' role in managing the infrastructure and utility service facilities"³².

³⁰ These other initiatives include the passing of laws further defining municipal functions. These include: **Model Municipal charter; Law on Municipal Service; Law on Local Referenda;**

³¹ SPPRED Secretariat. State Programme for Poverty Reduction and Economic Development (2003). Pp. 16 & 104.

³² Ministry of Economic Development. State Programme on Social-Economic Development of Regions for 2004-2008 (2004) p.31.

3.2 Organizational Structure of Municipal Government

In 1999, a law was passed defining the component parts of a sample "Charter of a Municipality" and setting out a process by which to determine the organizational structure. This is further elaborated by the above-described Law on the Status of Municipalities and the **Law on Municipal Service** such that:

- Unlike LEAs (see below), municipal councillors must reside in the territories they represent. This requirement should bring with it a high level of understanding of local issues and tacitly carries with it the weight of peer pressure to perform responsibly;
- A meeting is convened of all elected municipal officials within the municipality to approve an organisational structure/ the Municipal Charter;
- An Executive body/office of the municipality, consisting of people first elected by the people and then elected by the elected municipal representatives themselves:
 - elect their Chairperson (Mayor) and Deputy Chair (for a period determined by the "municipal decision");
 - create offices, departments/other structural units to implement programmes related to social, economic and ecological issues;
 - prepare the budget, plans and programmes for submission to the body of elected municipal officials for approval;
 - implement decisions;
 - manage municipal property;
 - implement other powers given to the municipality;
- Staff, or "municipal officials" who comprise a "municipal service" are hired by the municipality to oversee various municipal commitments. Under the legislation, they are not under direct subordination to the elected municipal body and may not be dismissed at the end of elected officials' terms of office;
- Municipal officials are elected for a period of five years.

3.3 Structure and Functions of Local Executive Authorities

As noted earlier, LEAs are part of the executive of government, answering directly to the President, and are charged with implementing state programmes at the local level.

The organizational structure of the LEA roughly parallels that of the State government to which it reports. Typically, it has a Head, appointed by the President, one or two Deputies, and a series of local departments representing a series of national level ministries. Each Department may have from two to ten employees to carry out such local responsibilities as tax collection, health, education, infrastructure, social development, economic development, law, planning/architecture and construction, and public affairs/community relations. Within a Rayon or District which includes urban and rural areas, there is a

hierarchy of LEAs including full-scale committees at the district and city level and representatives at the village and settlement levels.

LEAs are generally recognized by the population as the main local government power, as they have the majority of local resources and are a familiar form of State administration dating back to pre-Independence times. LEAs collect local revenues, which are then passed to the State with a portion (plus subvention) returned. Actual budget preparation is carried out by the nearest office of the Ministry of Finance. Local revenues are generated through taxation of commercial and industrial entities while residential taxation falls to the municipality. Financial resources of the typical LEA far exceed those of its parallel Municipal Authority by factors ranging from ten to 100 times. Barda municipal representatives, for example, estimate that they receive 2% of tax revenue and the LEA, 98%.

LEAs may or may not reside in, or be from, the geographic area they are managing. Consequently, members of the LEA may have varying levels of understanding of local issues

Figure 3-2 graphically depicts the LEA and municipal government structures (see figures in Annex G for examples of typical LEA structures.)

3.4 Formal Mechanisms Enabling Community Members' Participation in Local Decision-Making

There is considerable opportunity for local people to involve themselves in the decisions of their locally elected government, via the following means:

- **Referenda:** A referendum on any issue within the scope of municipal powers can be undertaken at the request of at least 10% of eligible voters;
- **Proposals:** Proposals can be presented before open councils;
- **Appeals:** Citizens, individually or as a group, have a right to appeal to municipalities, who must respond within one month to such an appeal;
- **Public access:** Annual budgets are openly available to all for scrutiny, public meetings are held, thereby providing considerable opportunity for community participation;
- **Building Associations or "Mahala Komitesi":** Residential building associations can be formed within a Municipality. They are voluntary associations established at the initiative of local citizens and encompass a building or several buildings. To form, such Mahalas must be registered at the Municipality. Their primary function is to work in cooperation with the municipality to improve social infrastructure and assist in developing initiatives to improve their members' lives through self-governing decision-making processes. Municipalities must answer the comments, proposals or petitions submitted by the Mahala within a month;

- NGO formation: The GoAZ has signed commitments with the Organization for Security and Cooperation in Europe (OSCE) that guarantees the freedom of association. As such, formation of local non-governmental organizations is permitted. NGOs are an important part of civil society-building.

3.5 Actual Performance of Local Levels of Government: Assessment of Overlap/Other Impediments to Service Delivery

In a recent evaluation of Azerbaijan's progress in meeting its Council of Europe commitments, progress on strengthening of local democracy has been scored as "low".³³ Based on field observations and consultations and on secondary sources it is clear that there are a number of barriers/issues that are impeding realization of the type of local self-government envisaged under the Council of Europe, and that may have implications for implementation of the Project being prepared under this PPTA. These issues are briefly discussed below:

- **A legislatively ambiguous mandate:** Municipalities' responsibilities under the law in the areas of social, economic and ecological programming are those that are not undertaken by, or that do not interfere with, the executive branch of government. Since the executive branch and the LEAs had been providing all services prior to formation of local self-government, it is uncertain what, exactly, is the realm of municipal responsibility. Local self government in Azerbaijan is not part of a continuum of authority from national to regional to local levels, but rather, is an entity which must function in parallel with powerful and established LEAs appointed directly by the President. As a recent analysis has concluded:

"[T]here is still no clear definition of the role and functions of the municipalities and no clarity between the authority of the municipalities and that of the local executive bodies and no clear definition of their relationship with the central government agencies".³⁴

The dual government structures at the local level place Azerbaijan in conflict with the standards set out by the Council of Europe (see 3.1, above), which state that "[local self government] powers shall normally be full and exclusive".

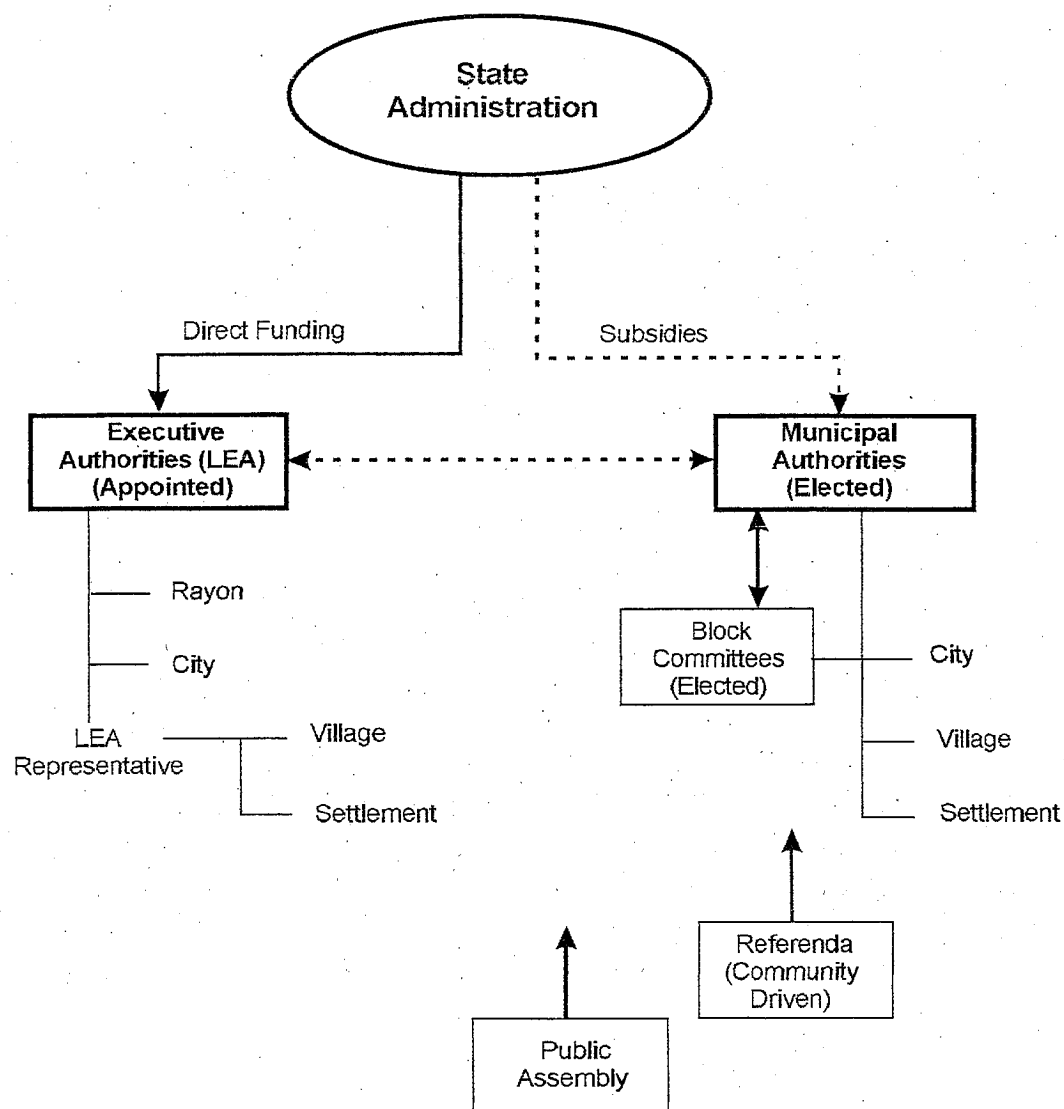
Overlap in authority/service provision: This issue is closely linked with the issue raised above. Table 3-1 on the following page depicts the division of responsibilities by government level and shows the considerable overlap of functions. Since state authorities are responsible for almost every service and programme and receive considerable budgetary allocations accordingly (amounts generally derived on a per capita basis), almost any issue that a municipality takes on is bound to overlap/conflict with the local executive authority. As one source has noted:

"The powers and responsibilities of Azerbaijan's municipalities are very limited, failing to account for any substantial share of public affairs as

³³ ITAD. Evaluation of the South Caucasus European Commission/Council of Europe Joint Programme. (Feb. 2005) p. 37.

³⁴ Weitz Center for Development Studies. Needs Assessment of Municipal Services Development: Azerbaijan. (funded by: OSCE; USAID; GTZ; IFES; Eurasia Foundation) Feb. 2005, p.16..

Local Government Structure



stipulated in the European Charter of Local Self government. Moreover, these powers are neither full nor exclusive; in fact all municipal duties are discharged merely as backup to or under the supervision of the devolved authorities.”³⁵

Table 3- 1: Responsibilities by Administrative Tier

FUNCTIONS	MUNICIPALITIES	DISTRICTS/CITIES	CENTRAL/STATE
EDUCATION			
Pre-school	√		√
Primary	√		√
Secondary	√		√
Technical			√
SOCIAL WELFARE			
Nurseries	√		√
Kindergartens	√		√
Welfare homes			
Personal services for elderly/handicapped	√	√	
HEALTH SERVICES			
First aid	√		√
Health services	√	√	√
Hospitals	√		√
Public health			
CULTURE, LEISURE, SPORTS			
Theatres	√		√
Museums	√		√
Libraries	√		√
Parks	√	√	√
Sports	√	√	√
ECONOMIC SERVICES			
Water supply	√		√
Sewage	√	√	

³⁵

Ibid. p. 16.

Electricity	√		√
Gas	√		√
District heating	√	√	
ENVIRONMENT/SANITATION			
Waste collection	√	√	
Waste disposal	√	√	
Street cleaning	√	√	
Cemeteries	√	√	
Environmental protection	√	√	√
URBAN DEVELOPMENT			
Town Planning	√		√
Regional construction			√
Local Economic Development	√		√
Tourism	√		√
GENERAL ADMINISTRATION			
State administrative duties (electoral register);	√	√	
Local Police			√
Fire brigades			√
Civil Defense			√
Consumer Protection	√	√	√

Source: Mamedova, Meriban, et al. "Local Government in Azerbaijan. Table 7-A

- **Inadequacy of municipal financial resources:** While the range of activities that could, potentially, under existing law, be placed under the auspices of municipalities is considerable (e.g. local infrastructure, including transportation, utilities, waste management, etc.), the financial modalities provided to local self-government essentially preclude anything but a minimum implementation capacity. This limited capacity stems from the following causes:

- Land and property taxes represent the largest potential source of revenue. However, tax collection has been difficult due to recalcitrance in tax

payments³⁶ and the generally high level of poverty in most communities which makes collection even more problematic and risks making municipalities unpopular. With regard to property tax, no clear property assessment procedures are in place and such that many owners refuse to pay. Municipalities were previously able to collect a vehicle property tax, but this revenue source was recently withdrawn and transferred to the State. Overall, the tax base is insufficient to enable municipalities to carry out any major programming. Analyses have shown that municipal budgets tend to be only 3%-10% of their corresponding LEA budget. As the Council of Europe has noted, "the financial independence and tax-raising capacity of municipalities in Azerbaijan is very limited; the only revenue available to most municipalities comes from non-lucrative local taxes and charges."³⁷

- Land rental revenue is possible from a variety of sources such as small shops and tea houses located on municipal lands. However lessees are unable to pay, while the rents charged to others are so low as to be not worth the collection effort.
- Subsidies/transfers from central government to local municipalities have actually been decreasing³⁸;
- Official transfer and registration of municipal lands, a requirement of LEAs under the law, is not progressing as rapidly as planned. Moreover, because lands for transfer to municipalities are generally defined as land that is neither state-owned nor private, much of this property is either undesirable or residential land that generates little revenue but requires heavy maintenance. In other cases, LEAs have completed private sales or leases of land before they could be officially transferred, thereby capturing the profits for themselves. As one source has noted:

"According to the Law on Land Reform, thirty-three percent of lands belong to the municipalities...By presidential decree...the appropriate state administration bodies were to determine municipal lands and transfer them within two months. This was accomplished in the majority of municipalities with the exception of major cities [where] the state administration bodies are reluctant to relinquish lands that generate high profits. In many cases, local administration heads had already illegally leased under long-term contract many of the lands later designated for municipalities. Lands that are actually transferred to municipalities are usually unfit for use or of disputable ownership."³⁹

- To supplement their limited revenue base, many municipalities are randomly selling land to cover expenses without benefit of a long-term

³⁶ Barda managed to raise a total of 70% of its intended revenue in 2004 and only 30% of their theoretical land and property taxes. Mingachevir collected about 20% of its due land tax and no property tax

³⁷ Weitz Center for Development Studies. Needs Assessment of Municipal Services Development: Azerbaijan. (funded by: OSCE; USAID; GTZ; IFES; Eurasia Foundation) p. 10.

³⁸ State government transfers are limited at present and reported to be 0% of total municipal revenue for Sumgayit, 13% for Mingachevir, but almost 37% for Barda. Closer questioning on Mingachevir's 2004 budget revealed, however, that while a State subsidy was shown as actual revenue, it had not been received.

³⁹ Mamedova, Meriban et al. Local Government in Azerbaijan. p. 13.

municipal development plan, the analysis of future land requirements, or a serious cost-benefit analysis beyond the immediate need for cash;

- Unilateral devolution of responsibilities from LEAs to municipalities has not always been accompanied by funding, thereby exacerbating the problem of revenue shortage.

Again, Council of Europe standards have not been met regarding provision of adequate financing to local self-government. In its absence, there is a very real problem of municipalities being seen by their constituents as ineffectual and lacking the stature and implementation ability of LEAs;

- **Unilateral Devolution of Responsibility to Municipalities:** It is the State's mandate to maintain infrastructure. However, the LEAs are so lacking in funds that they have begun to devolve responsibility for certain works to municipalities, even without an official directive.⁴⁰ For example, the inability of the LEA-controlled "Zhek" organizations to maintain residential infrastructure (solid waste management, building maintenance, etc.) has resulted in local residents organizing themselves into Mahalla Komitesi (see above) and registering themselves with municipalities, thereby giving the latter some level of incipient responsibility over building maintenance. However, as noted above, municipalities lack of the funds to undertake any infrastructural works beyond such small undertakings as public clean-ups, provision of garbage bins, public parks maintenance, etc.. Devolution of responsibility, under the Law on the Status of Municipalities, would require that any transfer of responsibility be accompanied by adequate funding;
- **Barriers to autonomy:** There is an important question as to the underlying context/*raison d'être* for local self-government in Azerbaijan. Under the Council of Europe Charter, local self government is seen as both contributing to decentralisation (bringing decision-making closest to those who have a stake in the outcome) and to building autonomy. In the case of Azerbaijan, existence of a parallel local executive government structure *de facto* precludes autonomy of local self government over local matters. If the aim were local autonomy, it is likely that the executive branch would have, as its policy, the transfer of authority and associated funding to municipalities. However, the trend has been for state subsidies/transfers to municipalities to actually decrease. Under the Constitution, the legislative (parliamentary) and judicial branches are subordinate to the executive branch. As one source has noted, "[U]nder these circumstances, Parliament is not in a position to adopt legislation that empowers municipal government to act independently, that is, potentially counter to state administration interests. Similarly, the judicial branch cannot provide adequate legal protection when municipal rights are violated"⁴¹;
- **Municipalities' "Non-governmental" status:** Municipalities' power and autonomy are undercut by the wording within the Constitution and associated legislation which characterize "local self-government" as "non-governmental".

⁴⁰ Weitz Center for Development Studies. Needs Assessment of Municipal Services Development: Azerbaijan. (funded by: OSCE; USAID; GTZ; IFES; Eurasia Foundation) Feb. 2005, p.25.

⁴¹ Mamedova, Meriban et al. Local Government in Azerbaijan, p. 17.

Therefore, while LEAs are mandated and funded to undertake work prescribed by the President and the executive branch of government, the municipality is non-governmental and can only undertake works that do not conflict or interfere with the more powerful and financially well endowed "governmental" entities. The Council of Europe framework calls for municipalities to function under the law as governmental bodies;

- **Unfavourable conditions for long-term planning:** Because of the effects of the issues raised above, municipalities operate in an environment of considerable uncertainty regarding their budgets and responsibilities over the longer term;
- **Inadequate human resource capacity:** Municipal councillors and staff, in order to carry out their work, require skills in many areas, among them the following: short, medium and long-term strategic planning; management; budget preparation and oversight; taxation and tax collection methods; fund raising; property oversight/ management; communications; community outreach; dispute resolution; project preparation, etc. Because local self-government is in its very early stages of development and because of its limited financial resources, its human resource capacity has been found to be generally weak and inadequate to meet the needs listed above.⁴² While various organizations have implemented training programmes (see Section 3.6 below), discussions with these organizations, and with the personnel of municipalities themselves, indicate that there is a considerable need for more capacity-building and training. These needs are discussed in a later section of this report;

LEAs are also typically more experienced in project implementation having the benefit of years of experience and access to greater financial and human resources. However, LEAs lack experience and in public consultation, transparency and community mobilisation, as these were not strong elements of the former Soviet system from which the LEAs have emerged. Capacity-building needs associated with LEAs are discussed later in this report;

- **Lack of budgetary oversight:** One of the gaps and main problem related to municipalities involves the management of municipal revenues. As one analyst has noted in an assessment of Azerbaijan's municipalities⁴³:
 - Municipal expenditures are not specific and adjusted to total revenues;
 - The spending of municipal budgets is vulnerable to subjective views of municipal members and is not based on relevant norms and regulations;
 - Subsidies and subventions from the central budgets are not spent for specific purposes;
 - There is a danger of abuse of fiscal discipline and violation of the principles of transparency of budgets;

⁴² A recent GTZ report (2004) has found that council members, mayors and community heads often lack experience and are poorly informed of their duties and responsibilities.

⁴³ Aslanov, Aidyn. Present State of Local Self-government in Azerbaijan and Trends of Refoms. (2003) Sec. 5.1.

- There is a lack of a mechanism to ensure coordination of budget expenditures or settlement of possible conflicts;
 - Municipalities' budgetary indicators and economic development programmes are not verified;
 - The mechanism for implementation of principles of administrative control is in its infancy.
- **Lack of a National Association and/or Executive Ministry for Local Self Government:** There is no national association of municipalities or a Ministry of Local Self-Government within the executive branch to champion and defend the interests of municipalities. As a recent ministerial conference on local governance organized, among others, by the Council of Europe posed:

"A frequent reason given for the delay in transferring competences and resources, even when the legislation is in place, is the inability of local authorities to manage such responsibilities. Where are the trained staff to do the work? How well do the national associations help local authorities strengthen their own capacities to deliver good public services? How well do national associations stand up for strong local government in the national debate?...there is too little inter-municipal cooperation: this detracts from finding solutions to key development issues."⁴⁴

Another source notes that in the context of Azerbaijan:

"Oftentimes decisions taken by central authorities are dissonant with the interests of local self-government bodies. Interests of municipalities are not taken into account in preparing decisions that have a bearing on municipalities, and there are no ways to do so. This often leads to conflict situations."⁴⁵

- **Weak Civil Society:** The findings of a recent evaluation of Azerbaijan's ability to meet the local self government standards of the Council of Europe centre out the weakness of civil society, the adverse impact of such weakness on realization of self governance goals and the need to place greater attention on this weakness:

"Under the JP [Joint Programme] an attempt has been made to address the mainly underdeveloped and marginalized problems of state-society relationships and to create the legal and institutional base for self-governance. *The main problem is that there is very limited opportunity for establishing a civil society in the European sense. Capacity building to move this process forward has taken place, although due to the weakness of the NGO sector in Azerbaijan, it is very dependent on donor grants.* In our view, this component needs to be given a higher priority, as any reforms of legislation in terms of compatibility with European

⁴⁴ Council of Europe. Effective Democratic Governance at Local and Regional Level. (Proceedings of the South-Eastern Europe Regional Ministerial Conference, October, 2004) p.

⁴⁵ Aslanov, Aidyn. Present State of Local Self-government in Azerbaijan and Trends of Reforms. (2003) Sec. 3.4.

standards will not have any real effect if civil society remains undeveloped and unable to demand and support the reforms."⁴⁶

The recent analysis of Azerbaijan's "civil society sector" undertaken by USAID⁴⁷ is consistent with observations of the PPTA team. Among others, it concludes that:

- If civil society is taken to mean local NGOs, capacity is low and the NGO community faces serious obstacles in the form of government imposition of legal barriers and adverse tax policy;
- Nevertheless, the local NGO sector has substantial untapped potential, that is, many have been trained through donor and other funding, are under-utilized and would be able to take on broader responsibilities;
- There are still other groups who are not on the donor community's recipient lists, many of these located outside of Baku and many of them not registered who represent additional, though currently inaccessible potential;
- Looking beyond NGOs to take into account other forms of citizen action, another very promising sector emerges, that of mobilized communities, or active community groups who are reaching out to their local municipal councils and to local NGOs. The block communities, or mahala komitesi's would be included in this group. It was noted that:

"All municipal councillors with whom the team spoke emphasized the utility to the municipality of such groups..."they are our eyes and ears in the community...By the same token, *municipalities appear noticeably weaker in areas where there has been no community development activity*. Interlocutors in unmobilized areas told the team that their municipal councils were even less clear about their roles...."disabled organizations"...In a similar vein, a 2003 study found that unmobilized communities experienced lower voter turnout for municipal elections, lower levels of popular trust in municipal councils, and a greater perception that municipal officials were selected by excoms [LEAs]."⁴⁸

- **Impediments to NGO formation:** Associated with the point discussed above, registration of NGOs has been almost at a standstill over the past few years, as documented by the OSCE and USAID in separate initiatives. The Ministry of Justice has not processed applications which technically must be accepted or rejected within 40 days. The OSCE identified the many barriers/tactics used to slow or reject applications and concluded, among others, that "its current practical implementation is clearly not favourable for the continuing development of civil

⁴⁶ ITAD. Evaluation of the south Caucasus European Commission/Council of Europe Joint Programme. (Feb. 2005) p. 30.

⁴⁷ USAID. Azerbaijan Civil Society Sector Assessment Final Report. (January, 2005) p.2.

⁴⁸ Ibid. p.16.

society and raises concern.⁴⁹ This problem could have a direct effect on the PPTA, and particularly on the "Local Initiative Fund" (LIF), as the LIF ideally attracts applications from community groups that are registered and therefore able to open bank accounts and manage money. Discussions in the field yielded comments from a number of key informants regarding the blockage of NGO registration and the adverse impact on civil society.

A recent comprehensive study of municipal capacity in Azerbaijan has presented a summary many of the challenges facing local self-government:

"At present, the municipalities do not have the legislative framework, the financial resources or the professional and administrative capabilities to fulfil their responsibilities as perceived by the population. Neither the national government nor the state authorities consider the municipalities to be formal government entities. They have limited tax collection powers and a poor financial base. They operate within a vague under-developed system of laws and regulations and are subordinated to a parallel system of state authority."⁵⁰

3.6 Initiatives Underway to Strengthen Local Self Government and Civil Society

As briefly noted in Section 2.4, there are many initiatives that have been, or which are planned to be undertaken to strengthen local self government and civil society which must be recognized both to avoid duplication and to identify possible gaps/needs. These are briefly described below:

- GoAZ has undertaken a number of steps in order to move towards satisfying Council of Europe requirements, among them, development of laws defining the municipal government structure. It is also engaged with ADB to implement this PPTA which includes a significant focus on local government;
- The Council of Europe has provided assistance, monitoring and evaluation and guidance to the GoAz as far as assisting Azerbaijan to comply with its commitments as a signatory to the Council's Charter. Its work provides a useful baseline of information and support for the proposed PPTA. In addition the Norwegian Association of Local and Regional Authorities will be assisting in the establishment of a national Association of Local Authorities of Azerbaijan in order to strengthen local self governmental units;
- USAID has undertaken a substantial assessment of civil society in Azerbaijan as a basis for its pending civil society programme, whose parameters have not been finalized. Its plans should be monitored to reduce the chance for duplication or overlap. In addition, it is assisting the Ministry of Economic Development through the Azerbaijan Public Investment Policy and Efficiency Project (PIPE). Among the aims is development of sectoral development and policy plans for key infrastructure and social sectors, and provision of assistance to selected technical

⁴⁹

OSCE, *Problems of NGO Registration in Azerbaijan – a Survey*.

⁵⁰

Weitz Center for Development Studies. *Needs Assessment of Municipal Services Development: Azerbaijan*. (funded by: OSCE; USAID; GTZ; IFES; Eurasia Foundation), Feb. 2005. Executive Summary, E-1..

ministries and other budget organizations to improve formulation of their sector-specific investment plans;

- UNDP, with ADB is jointly sponsoring a Cities Alliance initiative in Azerbaijan's regional towns (See ADB discussion above). The Cities Alliance initiative focuses on strengthening of regional towns and involves identification of high priority social infrastructure projects within participating towns, including Mingachevir, Ganja and Sheki, which may become the focus for the SIRT;
- Organization for Security and Cooperation in Europe (OSCE), among others, co-financed the Needs Assessment of Municipal Services Development, supports the concept of municipal and civil society strengthening, and undertaken a monitoring function in relation to problems with NGO registration;
- IFES is a U.S.-based international organization that contracts with a number of international agencies and has offices in Baku. It specializes in democratic institutional development, including good governance, rule of law, civic society, elections, conflict resolution, gender issues and training. IFES has developed manuals for, and has delivered on-going training to, municipal councillors. Their local offices tend to be in the municipal offices themselves. One of their aims is to support the stated government policy of decentralization through municipal support. In Mingachevir, IFES has been active in supporting the creation and functioning of NGOs, the creation and registration with the municipality of block associations (Mahalla Committees) and of "communities" (formerly generally non-registered, mostly IDP groups). In Barda, IFES has organized student action committees. **New funding will enable IFES to prepare and deliver training in the areas of strategic planning, budgeting, economic development and community participation.** The aim will be to train trainers to deliver three modules and then provide micro grants for social infrastructure upgrading in three communities (e.g. repair of water and electricity services);
- Save the Children's work has resulted in the establishment of many Community Action Groups (and umbrella "Cluster" organizations) that have been trained in many areas such as needs assessment, proposal preparation, etc.. Some of the groups have been able to register as Block Communities, although none have been able to register with the Ministry of Justice as official NGOs to date;
- GTZ has been undertaking a programme that has, according to such stakeholders as OSCE and IFES, been very successful in supporting municipal councillors to go through **a training process and then providing monies through a competitive process for councillors to implement projects.** (GTZ office is in Tbilisi.) Their Azerbaijan work, however, has been rural-focussed without any specific application to urban municipalities;
- ARAN was created in 2001 by Oxfam as a local NGO to implement a programme in Barda and surrounding regions, including Mingachevir. ARAN is focused on civil society development. Its goal and focus is poverty reduction. Among its main projects is an irrigation project benefiting 250 families funded by the GTZ. They are about to start a **new PRSP Monitoring by Municipalities project** which will see ARAN spending "tens of thousands of dollars" on training. They are also helping

municipalities to develop five-year strategic plans. ARAN has fifteen staff located in Barda and has been characterized by several key informants as one of the most solid and productive NGOs.

- The Open Society Institute, founded by George Soros, has a "local government and public service reform initiative program" whose activities should be factored into the activities of the PPTA to avoid duplication. Its focuses include: increasing public awareness about local government; promotion of cooperation and communication between local government and the citizens; enhancement of the capacity of public administrators; provision of advice to local governments on policy and management problems, etc..

Notwithstanding these initiatives, there are considerable gaps in training and in the capacity to prepare and implement projects, particularly at the municipal and community/civil society level. There are additional issues relating to the relationship between LEAs and the community that need to be addressed. While many of the issues discussed above relating to the legal framework will be beyond the capacity of this PPTA, they must be recognized during project preparation as they define the current operating environment. Capacity building recommendations are discussed in later sections of this report.

4.0 Social Infrastructure for IDPs And Vulnerable Populations (SII)

4.1 Rationale for the SII

The SII represents the primary focus of this PPTA⁵¹ and is the main subject of this report. It is designed to address the social and economic needs of Azerbaijan's most vulnerable populations in regional towns (RTs), including Internally Displaced Persons (IDPs) and other vulnerable resident populations by supporting the sustainable delivery of improved social infrastructure. As discussed in Section 2, IDPs have suffered greatly, many still being housed in temporary accommodations a decade after they left their homes, and most existing at the existential edge. The pressures associated with the influx of many thousands of IDPs into regional towns, along with high unemployment, have also created very difficult conditions for local residents, many of whom are also living at or below the poverty line. An underlying design goal of The SII has been to ensure that the social infrastructure investments benefit *both* IDPs and local residents.

The SII's focus on regional towns supports GoAZ policies of decentralised governance and regional social and economic development. As discussions in Section 2 have indicated, much of the focus of assistance to vulnerable populations has been on the Baku area. There has also been a trend towards migration out of the regions into the capital and other parts of the world. Investment in regional towns' infrastructure should help, among others, to improve living conditions for IDPs and residents, to create more favourable conditions for economic development and other productive activities, and to generate more options locally, thereby reducing the need for out-migration.

An additional and prominent goal of the SII has been to enable and support local community groups to select, design and implement their own high-priority social infrastructure projects through a participatory process, thereby strengthening local cohesion and capacity while also supporting smaller development priorities. This focus will be expanded during the future SIRT initiatives described later in this report.

In order to successfully implement the SII in the regional towns and to ensure sustainability of the social infrastructure improvements that are funded, capacity will need to be built at a number of levels, including national and local government structures, community-based groups (e.g., block communities, local NGOs, and other community-based organizations) and IDP communities.

Because of the size of the loan allocated to the SII (\$13 million), it was determined that the participation of only three regional towns (RTs) would be realistic. Visits were undertaken by the consulting team to over a dozen RTs selected on the advice and guidance of the State Committee for Refugees and IDPs (SCRI). A rapid participatory needs assessment, involving site visits and consultations with national and local government personnel, NGOs and representatives of

⁵¹ As the SIRT is to be developed more fully in a pending phase, this PPTA is intended to provide an initial foundation for future work.

humanitarian and donor organizations and the application of the following criteria, was undertaken to identify the three RTs:

- Numbers/concentrations of IDPs and vulnerable populations: Concentration of IDPs and vulnerable populations;
- Economic base/employment: Extent of unemployment and difficulty facing IDPs and the local population, with an important aim of the SIRT being to contribute to poverty alleviation through improved social infrastructure;
- Institutional capacity at local level: RTs with relatively well established local self-government and some local capacity were viewed more positively;
- Presence of mixed communities: Opportunities were looked for that would enable the SII to benefit both IDPs and local community members;
- Level of social infrastructure/services/facilities: Urgency of the need for social infrastructure was evaluated;
- Social capital/cohesion/trust: Existence of social cohesion, associated, among others, with the level of formation of NGOs, CBOs, mahala komitesis, etc., was considered as an asset;
- Links with other development initiatives to create a critical mass of positive change: RTs where there could be a 'multiplier effect' associated with the linking of social infrastructure improvements with the work of other agencies was also deemed as an asset (e.g. where initiatives are under way to strengthen IDPs and vulnerable populations into mahala komitesi).

Based on the rapid assessment, the three regional towns selected to be the focus of the series of social infrastructure improvements associated with the SII were:

- **Barda:** Selected for its high proportion of IDPs; inclusion in MOED's Regional Social and Economic Development Programme; and presence of existing NGO (IFES) activities in local self-government strengthening.
- **Mingechevir:** Selected for its high proportion of IDPs; also, to build upon ADB's previous IDP housing work there; presence of an active LEA, Baladiiya and Mahalas; former and potential industrial importance; and presence of existing NGO (IFES) activities in local self-government strengthening.
- **Sumgayit:** Selected for its significant proportion of IDPs; for its strong LEA and Baladiiya; the presence of existing development agency activities in local self-government strengthening (IFES), IDP support (NRC), and World Bank in infrastructure development.

4.2 Guiding Principles

The following set of principles has guided the definition and design of the SII:

1. **Inclusiveness.** SII's processes and mechanisms will actively seek to include women and vulnerable groups within towns and communities so as to ensure they benefit from capacity building and subprojects;
2. **Good governance.** Continuing eligibility to receive SII support and to access funding will depend on compliance with SII procedures aimed at promoting accountability, transparency and other elements of good governance. Consistent failure to adhere to these will result in loss of eligibility for SII support. The Project Performance Management System (PPMS) will build mechanisms into SII design that enable effective monitoring of compliance;
3. **Transparency.** The SII will encourage towns and community groups to adopt practices for transparency and accountability in SII implementation, and to further mainstream these in non-SII activities. Likewise, the Executing Agencies will adopt transparent procedures designed to enhance their accountability to, and client orientation toward, participating RTs;
4. **Cost-Effectiveness.** Executing Agencies and Implementing Agencies will conduct their activities in a cost-effective manner. They will seek to maximize the local benefits achieved through efficient deployment of staff resources and will operate within agreed budget parameters;
5. **Decentralization.** The SII will be designed to support State policies and programmes to devolve responsibility to local authorities and community groups. By strengthening RT capacity to select, design, and implement viable investments, the SII will enable local communities and institutions to drive their own development process;
6. **Sustainability of micro-projects.** The maintenance requirements and recurrent costs of subprojects shall be taken into consideration during identification, design and appraisal. For all subprojects, provisions shall be made for subsequent operation and maintenance costs. If fees can not be collected to operate and maintain assets that are established under a subproject, other financial sources or commitments in kind must be secured and used to maintain the infrastructure;
7. **Environmental and Social Consciousness.** The Executing Agencies are required to take into account the impact of subprojects on the physical, biological and social environment of the concerned villages and communities and to incorporate appropriate mitigation measures. Mechanisms will be put in place to identify and address potential threats.

4.3 Description of SII Activities

To accomplish the goals discussed in Section 4.1, and consistent with the Principles elaborated in Section 4.2, the SII consists of the following three activities:

- Social infrastructure aimed at benefiting IDPs and other vulnerable groups;

- Institutional arrangements for implementation and management of the SII; and
- Capacity building to ensure smooth implementation and a sustainable SII.

Specifically, the SII will deliver improved social infrastructure for IDPs in Barda, Mingechay and Sumgayit. As discussed in more detail later in this section, it will support the construction of medium-density urban housing allowing IDP families to move out of selected inhabited secondary school facilities to improved living conditions while also making the schools again fully available for educational use. Approximately 58% of IDP families - 810-840 families depending on the final housing configuration selected - currently inhabiting about 36 secondary schools will be relocated. This will free approximately 75% of the secondary schools in the three participating towns. Re-located IDP families will be provided with new residential accommodation in medium-density, urban apartment buildings. The improvements will make classrooms and other school facilities available to accommodate students while reducing the need to operate schools in shifts. Both IDPs and local populations will benefit from the initiative.

In order to identify priority investments, a needs assessment was undertaken during the first six weeks of the initial PPTA. The assessment included an intensive programme of key informant interviews, focus groups and household case studies in the three regional towns that involved consultation with over 200 stakeholders. This process resulted in identification of a long list of potential priority sub-project investments. Additional consultations were carried out during subsequent study activities, followed by a Stakeholder Workshop. A meeting with the State Committee on Refugees and IDPs (SCRI) enabled screening of this long list, resulting in identification of priority investments as summarized on the following table:

Table 4-1: SII Assessment & Selection

Potential Sub-Project Investment	Assessment	Decision
1. Relocation of IDPs/other populations from occupied schools	<ul style="list-style-type: none"> • School de-occupation identified as high community priority. • Addresses IDP and wider community needs; • School rehabilitation not included based on assessment of other existing programmes, but links will be encouraged. 	Selected as basis of SII component
2. Rehabilitation of existing IDP housing - apartments, dormitories	<ul style="list-style-type: none"> • Assessed as marginally beneficial in terms of long-term development; • many NGO humanitarian-linked activities in this sector already; • not included as part of the major loan components 	Remains possible through LIF component

3.	Development or rehabilitation of municipal infrastructure - roads, drainage, water, sanitation, energy supply (electricity, gas);	<ul style="list-style-type: none"> Water and sanitation ruled out as being covered by the SIRT (See Section 5); 	(See discussions regarding SIRT in Section 5)
4.	Social amenity construction/rehabilitation - schools, health facilities, elders homes, community halls	<ul style="list-style-type: none"> Construction of community/Mahala halls being considered for LIF; Schools and health facilities not to be addressed because other programmes are in place. 	Several are good candidates for LIF - elders facilities, community halls, etc.
5.	Open space development	<ul style="list-style-type: none"> Not appropriate for major loan components. 	Good LIF candidate
6.	Micro-finance business incubator programme	<ul style="list-style-type: none"> Goes beyond the scope of the SII 	Not included.

Based on the assessment process, three alternatives were finally placed before the stakeholders for consideration:

- Relocation of IDP families occupying primary and secondary schools to a new settlement, apartment blocks or other buildings that would be constructed under the SII;
- Improvement of living conditions in occupied dormitory blocks: This approach would be aimed at improving conditions and reducing densities in the existing dormitory blocks (e.g., relocating the kitchens, toilets, and washrooms; improving the general living conditions, such as repairs to corridors, roof, electric and sanitary fittings etc.); and/or
- Improvement of living conditions in a variety of public buildings occupied by IDPs and other vulnerable populations (e.g., apartments, sports halls, stadiums, schools not required for education, etc.).

Considering the immediate need for vacating the educational institutions occupied by IDPs, and the size of the loan available for the SII, the stakeholders and consultants decided to concentrate efforts for this PPTA phase on Option 1 only, enabling the relocating of as many families as possible out of occupied schools in the three towns.

4.4 SII Benefits, Impacts and Risks

4.4.1 Benefits⁵²

The SII will directly benefit at least 814 households (population approximately 3,700), currently living in distress in 36 secondary schools in Barda (396),

⁵² See section on poverty and social assessment for additional discussion on benefits.

Mingechevir (300) and Sumgayit (118) and provide them with new residential accommodation in medium-density, apartment buildings. This will make classrooms and other school facilities available to accommodate students while reducing the need to operate schools in shifts.

Quantification of net economic benefits is not possible, and therefore an economic analysis is not provided. However the following economic and related benefits will directly accrue to the beneficiaries of the SII component, and contribute to poverty alleviation in the country. Among the benefits are the following:

- **Housing Consumer Surplus**

Consumer surplus is the difference between the price the consumers are willing to pay and the market price. At low quantities supplied, consumers are willing to pay higher than the market price. Due to IDP income levels, their housing demand is close to zero. Per capita income in Azerbaijan was officially 425,400 AzM (86 USD) per month according to the official statistics publication (Azerbaijan in Figures 2004, State Statistics Committee)⁵³. IDP income levels are assumed to be considerably lower than this (see Section 8 on social and poverty assessment for further discussion of these issues).

With the SII, housing demand for the selected IDP group is met. It is assumed that a family with an average size of 4.5 presently (and under a “no-project” scenario) shares a space of 20 m². The SII stipulates 45 m² for each family relocated, implying an increased space of 25 m² or additional 6 m² per person. That implies a total of 21,600 m² additional living space as a direct benefit for 3,400 people affected. The SII thus theoretically transfers wealth to IDP's, which can create demand for housing space. This benefit, if quantified at 200 USD/m² (the assumed market price), can produce a yield of \$4.2 million.

- **Quality of Education and Accessibility Benefit**

In 2002, 178,259 families (760,021 population) were registered as IDPs with 9% occupying the educational facilities and another 17% occupying other public buildings. Out of the 200,000 IDP children, 86,000 are under school age and about 98,000 are school children. To meet the education requirement, over 700 schools have been established, some in prefabricated and substandard buildings. Due to lack of classrooms, the schools work in shifts.

With the clearing of the schools through relocation of IDP households to independent apartments, The SII will immensely benefit the education system. The settlement of IDPs in the educational facilities has created a number of problems not only for the displaced people but also for the resident population. Accommodating IDPs in schools has resulted in the need for most children – IDPs and locals – to attend school in shifts. Cancellation of classes is common and there has been an overall decrease in the quality of education. Equipment and supplies are lacking in all schools. School attendance among displaced children,

⁵³ As noted in the report section on poverty and social assessment, other sources will differ with state figures related to income levels, etc...

particularly girls, has declined over the past decade, as parents cannot afford school expenses for all of their children (OXFAM 2004).

The main benefit of the SII will accrue in Barda and Mingechevir, where IDPs have occupied 81% and 58% of classrooms in the targeted schools, respectively. In Sumgayit only 5% of class-rooms have been inhabited by IDPs, although large amounts of other school space (e.g., corridors, gymnasiums, offices, support buildings, etc.) are often inhabited. The following table summarizes the availability of classrooms:

Table 4-2: Class-Room Availability in IDP- Inhabited Schools				
	Barda	Mingechevir	Sumgayit	Total of Barda & Mingechevir
Total classrooms	295	370	678	665
Occupied by IDP	240	214	37	454
% occupied	81%	58%	5%	68%
Students attending	5,637	8,206	20,980	13,843

ALL

Relocation of IDP's from occupied schools will result in improved quality of education in the following ways:

approx.
6071
students

- **Elimination of the demand for new school buildings:** IDPs occupy 491 classrooms out of total 1,343 in 34 schools chosen for the SII. The average school size is 39.5 rooms. This implies that without the SII, the government would need to build 12 new schools. The construction of a school of the above size is estimated to cost \$150 to 175 m2. The average school (occupied) has an area of 39.5 rooms x 60 m² (assumed to be minimum area) or 2370 m². The total cost for building 12 new schools will be \$4.3 million (12 schools x area 2370 m² x rate \$150 m2). This represents the cost savings under a "with-SII" scenario;

- **Provision of access to full-length class time and reduction of shifts:** In a without-SII case, the class duration is restricted to 35 minutes in Barda and Mingechevir from the national standard of 45 minutes. With the SII, it is assumed that the standard class duration will be restored. The number of school children attending in the affected schools is 13,843, out of which 640 are IDP students. This implies an additional benefit of 692,150 minutes or 11,535 hours of schooling each school day (13,843 x 10 min x 5 classes/day). The length of class duration is directly related to the quality of education (time for homework, discussions, and instructor explanation is limited due to shorter class duration);

- **Elimination of shifts:** Thirteen schools in Barda and Mingechevir currently operate in shifts due to the IDP occupation of classrooms. Shifts lower the quality of education, as the same instructors hold multiple classes throughout the day. Reducing the shifts will certainly contribute to raising the quality of education;

- **Provision of full-access to all school facilities:** Under a "no SII" scenario, school children will be further deprived of access to the laboratory, sports facilities, cafeterias and even bathrooms (due to frequent use by the IDPs). Due to lack of space, some classes are held in mobile-units set up outside the school building with harsh conditions in wintertime. The SII will enable access to all the existing facilities.

- **Health Benefits**

The household budget survey confirms that households with IDP and refugee status have a relatively higher risk of being poor. Poor and unsanitary conditions with limited or no access to utilities have posed serious threats to the health and psycho-social well being of many IDPs. There is much concern among IDP women related to gender issues/women's health issues, family planning and protection of children's health. Currently, some 40,000 IDP women suffer from various diseases, and the incidence among children is increasing due to poor living conditions and lack of access to clean drinking water. Infant mortality is three to four times higher than the national average. Some 26% of IDP households suffer from malnutrition, compared to 10% nationwide; 30% of children (6-59 months of age) suffer from chronic malnutrition, compared to 21% nationwide. Table 4-3 below illustrates and compares the health indicators for IDPs with that of the national average:

Table 4-3: Health Indicators for IDP Population		
Indicators	% of IDP	% National
Households experiencing malnutrition	26.3	10.4
Children of 5 years with diarrhoea	23.4	15.2
Children with chronic malnutrition (6-59 months)	30.5	21.5
Children (12-59 months) with anaemia	46.1	43.3
Men with anaemia	34.4	25.0
Women with anaemia	40.7	35.5
Source: State Programme on Poverty Reduction and Economic Development, 2003		

Better living conditions and better utilities (i.e., provision of improved water and sanitation in new buildings) will improve the health conditions of the inhabitants, especially of the most vulnerable (i.e., children, the elderly, the disabled and the sick), who have less financial capacity to deal with medical costs. Reduced health costs will also result. Such costs are incurred by both IDP households and the government. The basic health service at public hospitals is free. Less cases of illness will reduce the public cost of attending to IDP health. Improved conditions will better the health conditions of the IDP households so that they will spend less on medicines and visits to doctors for cases not covered by free public health.

- **IDP Employment and Income**

Employment amongst the IDPs is another issue. According to SCRI, the working age population among the IDPs in 2004 was 286,361. Only some 86,361 of them are recorded as being officially employed (30%). The results of the Living Standard Survey of Refugees and IDP conducted by SIAR in 2003 suggest that 80.7% of the working age IDPs were unemployed.

The construction of the new buildings is assumed to draw some of the IDP and local population to be employed. The total (base) cost of construction will be some \$9 million, 30% of which is labor costs (approximately \$2.7 million). The average construction labor is assumed to cost \$75 (based on average monthly wage of AZM 373,835, in 2003). This implies that 36,000 person-months (or 3,000 person years) will be employed for five years. Presumably some of these will benefit the IDPs, supplementing their incomes and helping them to rise above the poverty line. With regard to the balance of \$6.3 million for materials, it is assumed that there will be 80% local procurement. A 30% labour input here will result in creation of an additional \$1.5 million in direct wages (20,200 person months or 1,700 person years), as well as indirect job creation.

- **Residual Value of Buildings**

It is assumed that once the IDPs are able to move back to their native homes in the occupied territories, the residential buildings will be handed over to the towns' municipalities/Baladiiyas. Baladiiyas will then have the option to lease the buildings to the local population for residential purposes, privatize them for commercial use (e.g., there is demand for hotels in all the three towns), or sell them in the open market and create financial resources for the Baladiiyas.

It is assumed that the market price of the buildings will rise as fast as the depreciation, thus offsetting the latter. The residual value of buildings in the year of sale is assumed to be \$9 million, which is the current estimated cost of construction. The useful life of the buildings is assumed 50 years, implying a 2% depreciation rate. The long-run real price increase of real estate is also assumed to be 2%.

4.4.2 Potential SII Risks and/or Negative Impacts

- **Low housing quality**

There have been some complaints that previously constructed housing for IDPs is of low quality. This may have stemmed from lack of proper supervision. Low housing quality will undermine many of the benefits identified. It will negatively affect the housing consumer surplus and the residual value of buildings. As a mitigating factor, the supervision needs to be strict;

- **Misallocation of funds**

It has been reported that some projects have resulted in rent-seeking and other activities that have resulted in diversion of funds from the project. Sound monitoring and evaluation practices must be out in place to track funds, and an international financial monitor is to be assigned to ensure transparency;

- **Selection of direct beneficiaries**

As the SII covers a small percentage of the IDP population, there is a risk that certain IDP groups will feel frustration at being left out. As a result, social tension may undermine the implementation of construction. Corrupt distribution of housing can undermine confidence of IDPs in the SII outcomes. A public awareness programme is required to explain the values associated with reclaiming the schools. Allocation of units in the new buildings must be accomplished in a fair and gender-sensitive manner (i.e., rights of occupancy for female household heads) that will protect people's rights;

- **Early repatriation of IDPs to native communities**

Early repatriation of IDPs to their native lands if the Armenia-Azerbaijan conflict is resolved during the SII period may imply that all of the SII benefits will not accrue as planned. However, rehabilitation of the vacated schools will still be required and the full benefit of the new housing can be accrued from sale of the buildings to private owners, should such a situation arise. Such a sale can produce a net profit. Unfortunately this risk would appear to be low, as even if a timely solution to the conflict is found, the presence of landmines and the ruined infrastructure in the occupied territories will likely require several years to ameliorate.

- **Land acquisition/resettlement/community disruption**

The land acquisition and other relocation impacts have been designed such that they are expected to be negligible. IDP's will be living close to their present locations and retain their existing sources of livelihood as well as social bonds. They will thus be saved from total disruption that is so common with relocation to distant locations. The SII envisages voluntary relocation to improved housing, with people relocated out of secondary schools. As discussed in Section 4.5, vacant lands for construction of new housing for IDPs are generally available close to the present locations of most of the occupied schools. In Mingechevir and Sumgayit the lands required for construction of buildings belong to the Baladiiyas who have given assurances that the required land will be transferred to the SII within six months of the loan's effectiveness. In the case of Barda, the transfer of lands to the Baladiiyas is pending though the Law on the Transfer of Assets to Municipal Property, which has required all LEAs to transfer the lands to the respective Baladiiyas within the region.

No resettlement is foreseen. The SII, then, will not entail any land acquisition from private ownership, and no persons will be adversely affected in terms of ADB's *Involuntary Resettlement Policy* (1995). In the event of unforeseen land acquisition from private ownership and/or resettlement the government (EA) will have the planning documents approved by ADB before award of civil work contracts, and implement any such resettlement measures in accordance ADB's *Involuntary Resettlement Policy* (1995).

4.5 Feasibility Assessment of the SII

4.5.1 Description

The SII involves relocation of IDPs from selected schools and is valued at approximately \$US13 million, including a US\$10 million loan amount. This SII component has been designed to address social infrastructure needs of IDP families living in the three selected regional towns while also providing benefits to the host communities. The present report section describes the feasibility assessment that has been carried out for the SII component. Implementation and management arrangements that are proposed are described in Section 4.6, and capacity building needs, in Section 4.7.

4.5.2 Existing Situation

Table 4-4 summarizes the number of IDP families and persons fully or partially inhabiting secondary schools in each participating town.

Table 4-4: IDP Families in Secondary Schools			
Town	Families	Persons	Schools Fully or Partially Inhabited
Barda	841	2,819	11
Mingechevir	485	2,003	14
Sumgayit	118	467	18
Total	1,444	5,289	43

4.5.3 Analysis of Housing Alternatives

Figure 4-1 presents a summary of the alternatives that were considered as part of the SII development process, as further described below:

4.5.3.1 Concept

The decision to clear schools and re-house IDPs resulted from the extensive needs assessment exercise conducted early in the PPTA process. Iterative discussions were held with LEAs, Baladiiyas, Ministry of Education, local Education Departments, SCRI, SFDI, heads of schools and resident IDPs. All of these stakeholders strongly supported the concept as a priority development initiative. The concept was confirmed by attendees at a Stakeholder Workshop.

4.5.3.2 Identification of Priority Schools

Selection of the schools to be cleared of IDP families was made in conjunction with local authorities, school officials and the Ministry of Education. School selection paralleled housing site selection to ensure the ability to relocate families as close to their existing social and economic networks as possible. Criteria used for selection of schools are discussed in a following sub-section.

4.5.3.3 Approach: Rehabilitated Housing versus New Housing

Rehabilitation of buildings versus new construction approaches were evaluated based on:

- previous experience of other agency initiatives;
- the impact that rehabilitation attempts have had on overall quality of life improvements for residents;
- assessment of current housing conditions;
- cost;
- how the approach would solve the problem of clearing schools; and
- short, medium and long-term developmental impacts on beneficiaries and local government.

Discussions were held with a full range of stakeholders, including many IDPs. Examples of rehabilitation of dormitory buildings occupied by IDPs showed that while definite improvements were visible, and appreciated by residents, they were not able to address the fundamental issues associated with too many people being forced to live together in too little space with shared facilities that do not meet basic social and cultural needs. Shared facilities have no ownership and repairs to them do not last, and investments can often be of limited benefit. To effectively rehabilitate many of the currently occupied buildings would require construction of new housing to allow a reduction of density in current buildings. It is also true that only provision of new housing will allow for relocation of IDP families from schools, as there is no additional capacity in existing buildings. As such, the construction of new housing was selected as the preferred approach for the SII. [Note: Rehabilitation of existing buildings may still occur as part of the overall PPTA project, as such sub-projects are eligible for funding under the "Local Initiatives Facility (LIF)", as described in Section 6 of this report.]

4.5.3.4 Preferred Housing Type

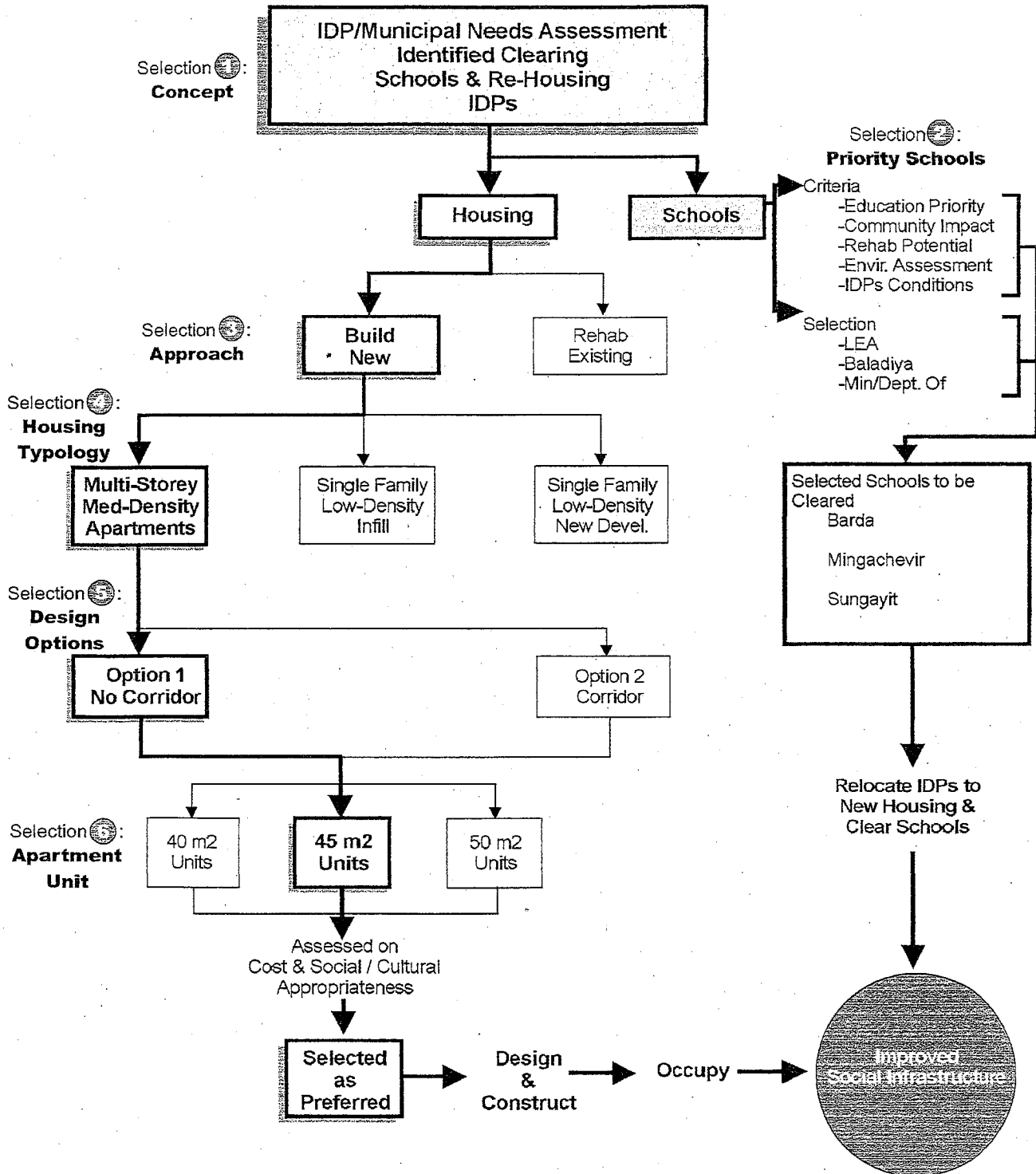
Three types of new housing were considered, as illustrated on Figure 4-2 and discussed below:

- Type 1: Medium-density (multi-storey), urban apartment blocks either as scattered infill developments or in consolidated developments;
- Type 2: Low-density, single-family houses on small, scattered in-fill sites within the existing built-up urban area; and
- Type 3: Low-density, single-family houses in a new, peri-urban housing development.

Table H-1 (Annex H) presents a detailed comparative analysis of each of these options. Type 2 has many urban development and urban infrastructure economic benefits. However, it contradicts the Government's policy to keep IDPs together in groups so that they can be more easily repatriated to their home areas when the occupied territories are reclaimed. This typology was rejected on this basis, supported by the fact that there would be difficulties associated with finding sufficient individual infill sites. Type 3 was evaluated, and ultimately rejected,

Social Infrastructure for IDPs (SII) Alternatives Assessment/Selection Process

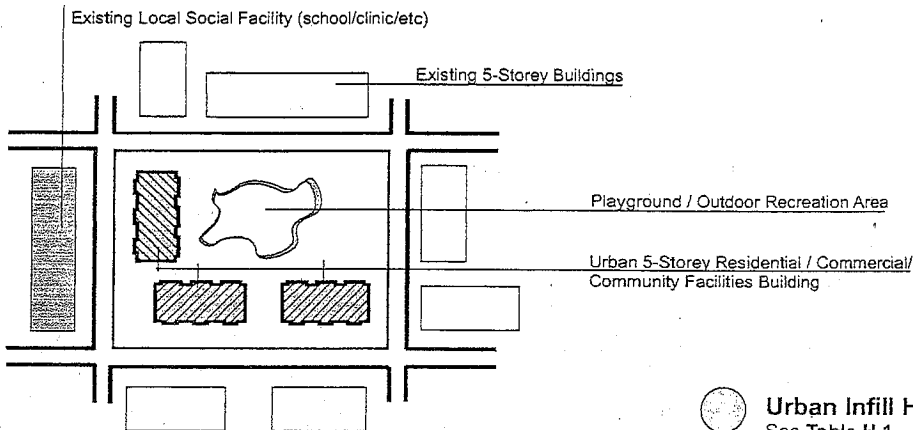
Figure 4-1



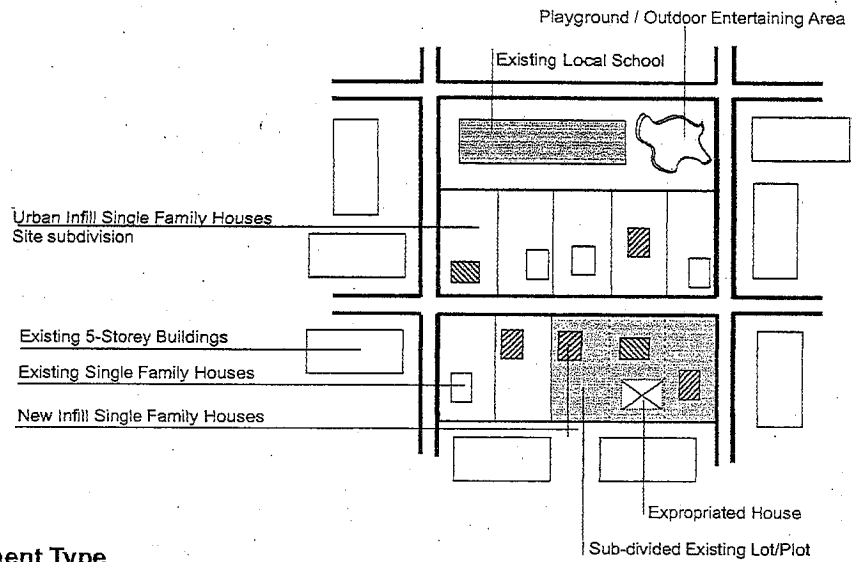
Housing Type Alternatives

Figure 4-2

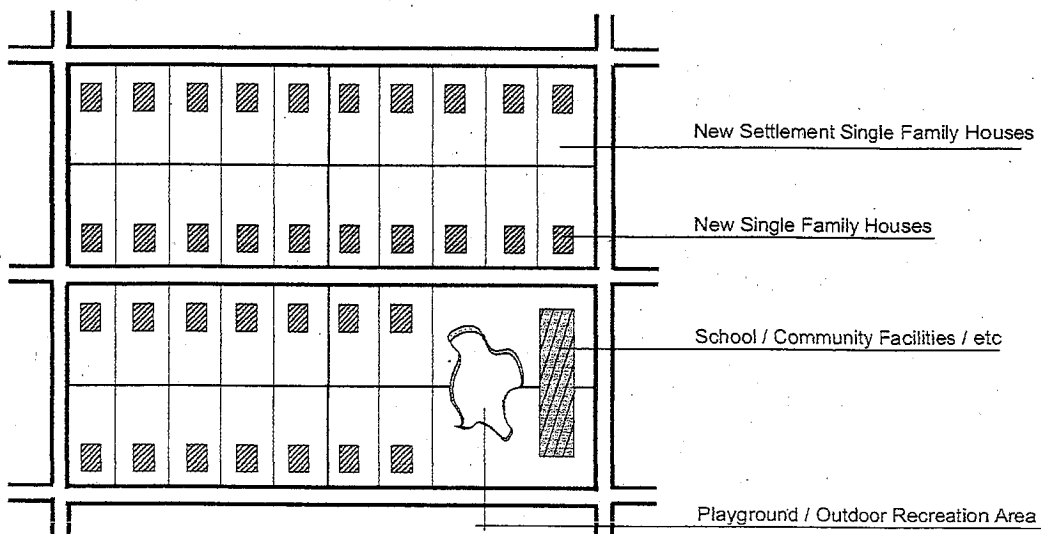
Urban 5-Storey Building Type See Table H-1



Urban Infill Houses - Single Family Type See Table H-1



Green Fields New Settlement Type See Table H-1



based largely on an assessment of existing “new towns” that have been created for IDPs, where the following types of issues have been encountered:

- lack of access to existing urban services for residents;
- requirement for expensive extensions of infrastructure;
- more costly maintenance as future Baladiyya asset, compared with apartment buildings;
- requirement for long-distance movement of IDP populations from current locations;
- lack of contribution of such new settlements to revitalization of existing urban areas in the secondary towns;
- average estimated cost of providing a new housing unit with this type is \$17,000 compared with \$ 11,000 per unit for Type 1⁵⁴ (see Annex L for cost breakdowns, including infrastructure).

The Type 1 housing option offers benefits as follows:

- infill of existing urban development space, optimizing use of existing infrastructure;
- provision of affordable and appropriate urban housing as a potential long-term Baladiyya asset;
- relocation of IDPs relatively close to where they are now living;
- benefits to women, in particular, who overwhelmingly expressed a preference to “stay together in apartment buildings” during the gender disaggregated focus groups carried out as part of the present study process;
- cost-effectiveness: While development costs for medium-density apartment buildings are comparable to single-family houses given current construction costs, the addition of land and infrastructure significantly raises the cost of new single-family developments.

Based on the analysis described above, Type 1 was selected as the preferred housing alternative.

4.5.3.5 Design Options

Following selection of urban, multi-storey apartment buildings as the most appropriate housing type, a comparison was made of two basic design options common in Azerbaijan as described below and shown on Figure 4-3:

- Option 1: individual stair cores providing direct access to units; and
- Option 2: central double-loaded corridor.

A review of the two options was carried out with SFDI, one of the major agencies involved in IDP housing, during a mini-workshop of Azerbaijan residents familiar with multi-storey apartment living (see Annex H). Informal discussions were also carried out with a number of IDPs living in dormitory buildings. The overwhelming

⁵⁴ Note: The cost of \$11,000 per unit is higher than the cost for such units in years past, mainly due to increases in material costs. It was also noted by project engineers that the costs of the Mingchevir settlement were never totalled properly, as various materials came in from various sources and were not factored into the end cost/unit.

consensus supports Option 1 - the no-corridor stair-core option. The preference is largely based on a perception that corridors are only for low-income, factory worker dormitory housing and would not provide the level of privacy families desire. One design consideration regarding Option 1 is the need for second means of fire escape via balconies and external fire-escape ladders. In both Options there is the further possibility to include space for commercial and community activity on the ground floor (see Figure 4-4).

Option 1 - stair-core design - is recommended (see Figure 4-5a, b and c).

4.5.3.6 Apartment Unit Type/Size

A mini-workshop was conducted with a number of Azerbaijan apartment dwellers to help evaluate unit design options (see Annex H). A unit type was decided upon to meet the following criteria (see Figure 4-5a & b):

- basic and unfinished;
- adequate for the average IDP household of 4.5 persons;
- meets Government standards of 8 m² of living space per person;
- self-contained toilet and kitchen facilities;
- appropriate for future use once IDPs return home;
- minimal so as to limit conflict with other populations not receiving benefits;
- minimal to be as cost-effective and as sustainable as possible;
- meets basic social and cultural needs.

Based on the analysis and criteria, a 45m² unit, including toilet and kitchen, is proposed as the typical model, with the possibility of some variation during final detailed design to cater to a variety of household sizes.

4.5.4 Housing Design and Cost

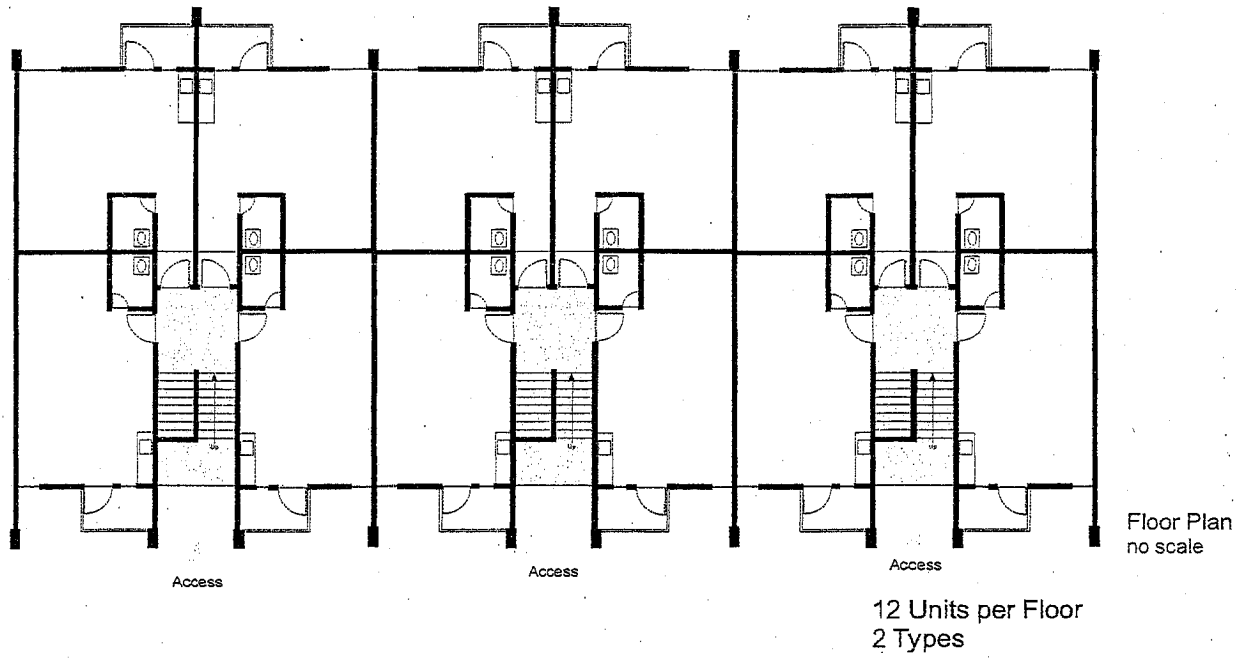
4.5.4.1 General Design Considerations

- Housing must be of a familiar type to ensure general social and cultural acceptance by potential occupants and the community as well as facilitate participation in cost-effective construction by a wide range of local builders;
- Buildings should be capable of being built individually or in clusters, depending on need and the selected site;
- The option exists to include a ground floor of business incubator spaces and community facilities to support local economic development and provide for community needs such as Mahala meetings, kindergartens, funerals, weddings, etc.;
- Housing for the target population group should not contribute to local conflict between population groups by being more than basic;
- Design should allow for a transition of management and ownership from short-term State/SCRI involvement to possible Baladiiya ownership/Mahala management,

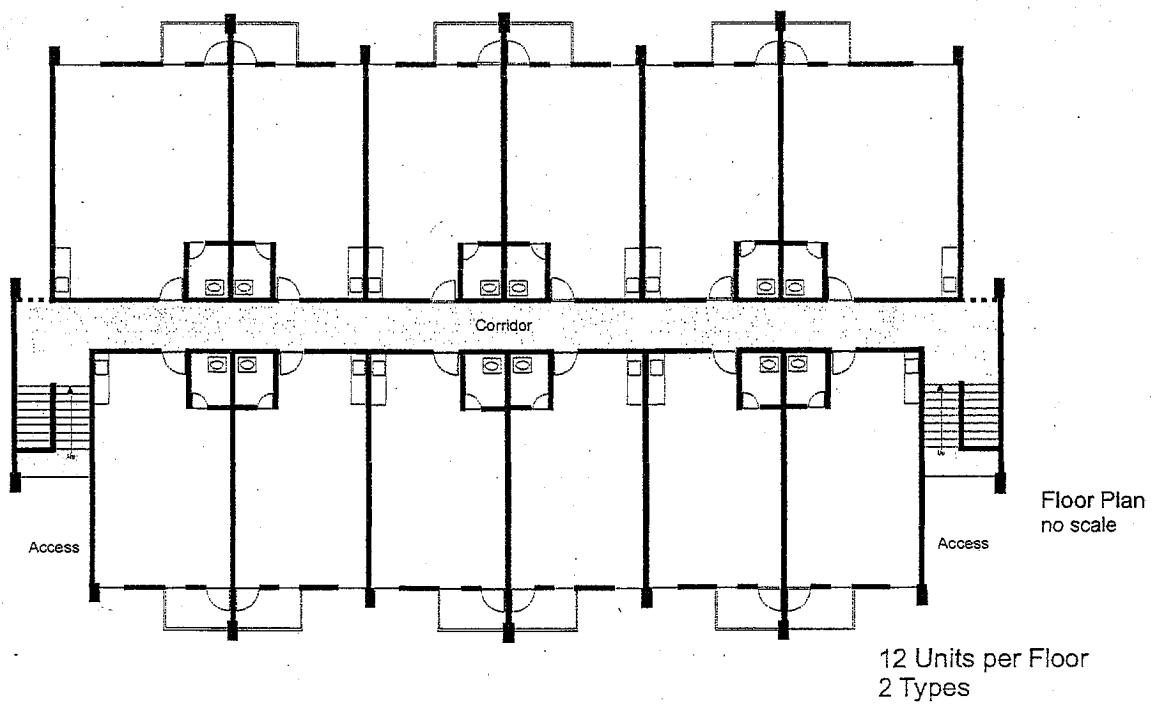
Apartment Building Design Options

Figure 4-3

Option 1 - No Corridor Concept

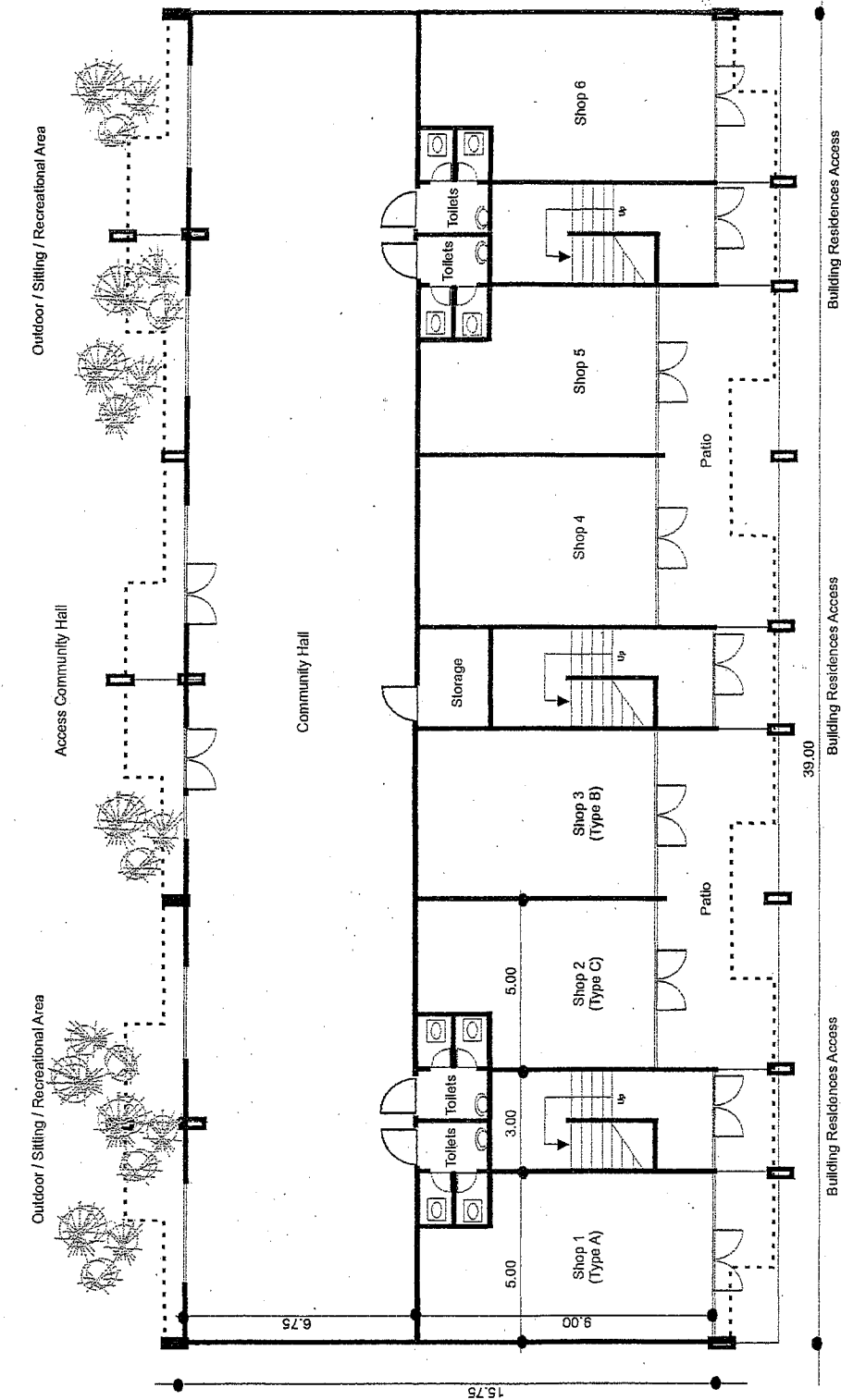


Option 2 - Corridor Concept



Apartment Building Design Option 1 No Corridor Concept Optional Ground Floor

Figure 4-4



Description:

- unfinished
- self contained

Program:

- Community hall (1)
- Shops (6)
- Patio (1)
- Storage (1)
- Toilet (2)

Building Area (Floor Print): approx. 640m²

Community Hall Area: approx. 263.25 m²

Shop Area:

- Type A (2): 42m²
- Type B (2): 35m²
- Type C (2): 32m²

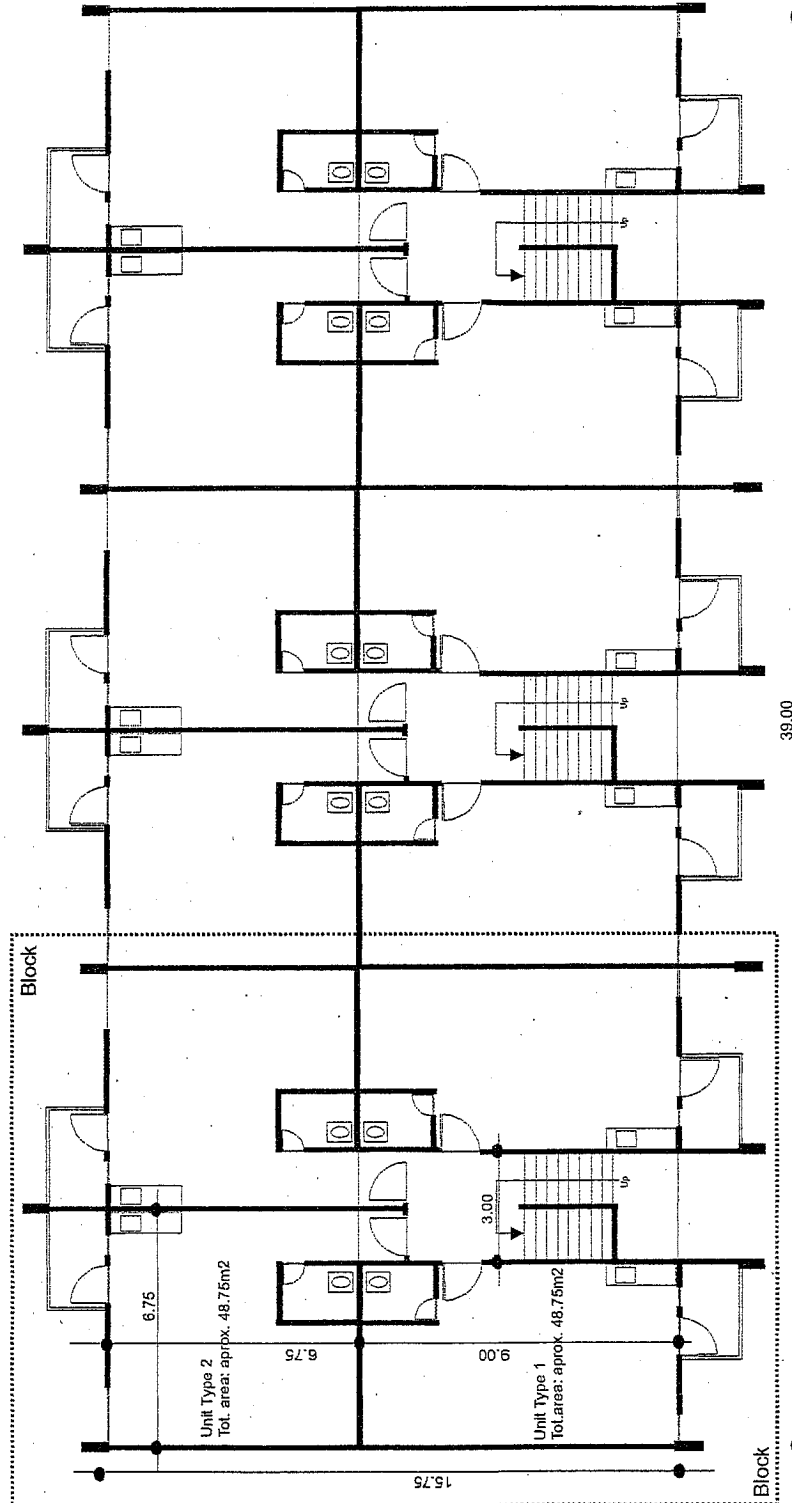
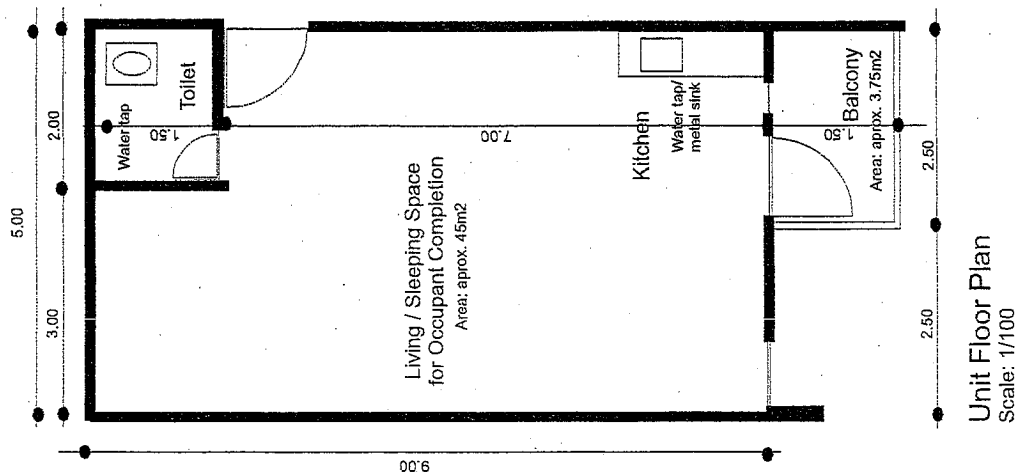
Apartment Building Design Option 1 No Corridor Concept Floor Plan

Figure 4-5a

Description:
 basic units
 unfinished
 self contained
 5-storey building
 04 units per floor per block
 20 units per block per entrance
 60 units per building

Unit Area: approx. 45 m² + 3.75m² (balcony)
 Total Unit Area: 48.75m²
 Building Area (Floor print): 640 m²
 Site Area: 1,920 m² (Building Area x 3)

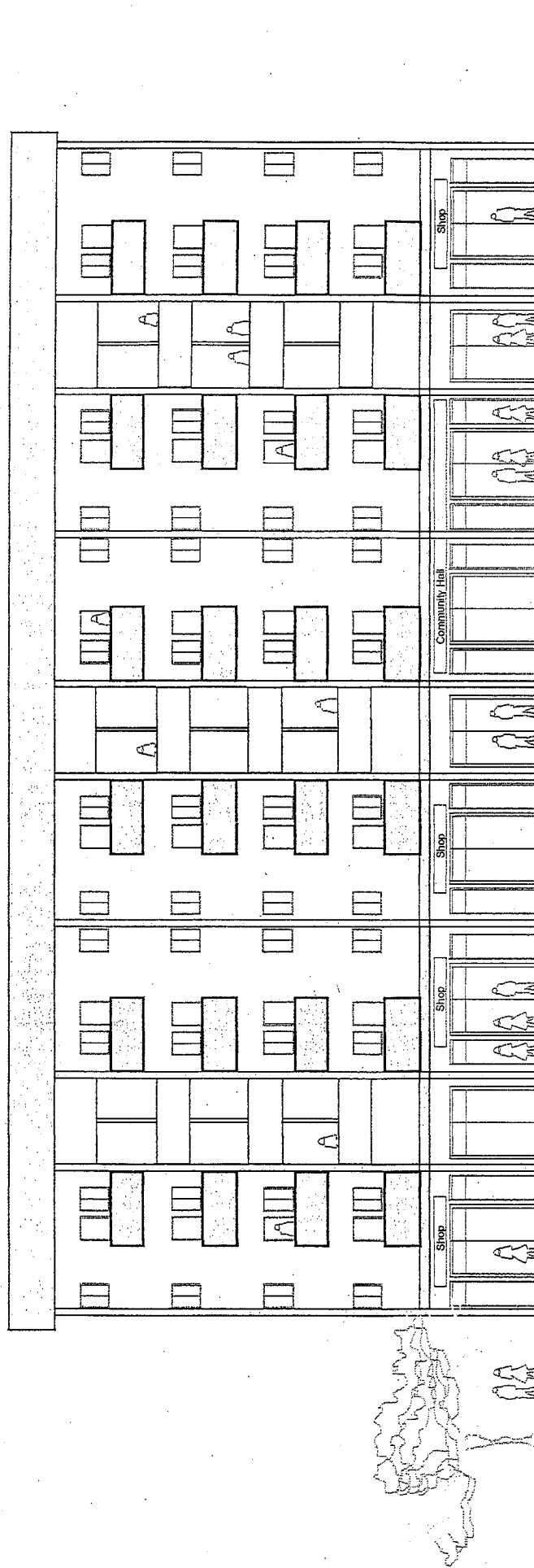
Option 1-A : no shops on the ground floor
 Option 1-B: 6 shops/community space on the ground floor/block



Floor Plan
Scale: 1/200

Apartment Building Design Option 1 No Corridor Concept Elevation

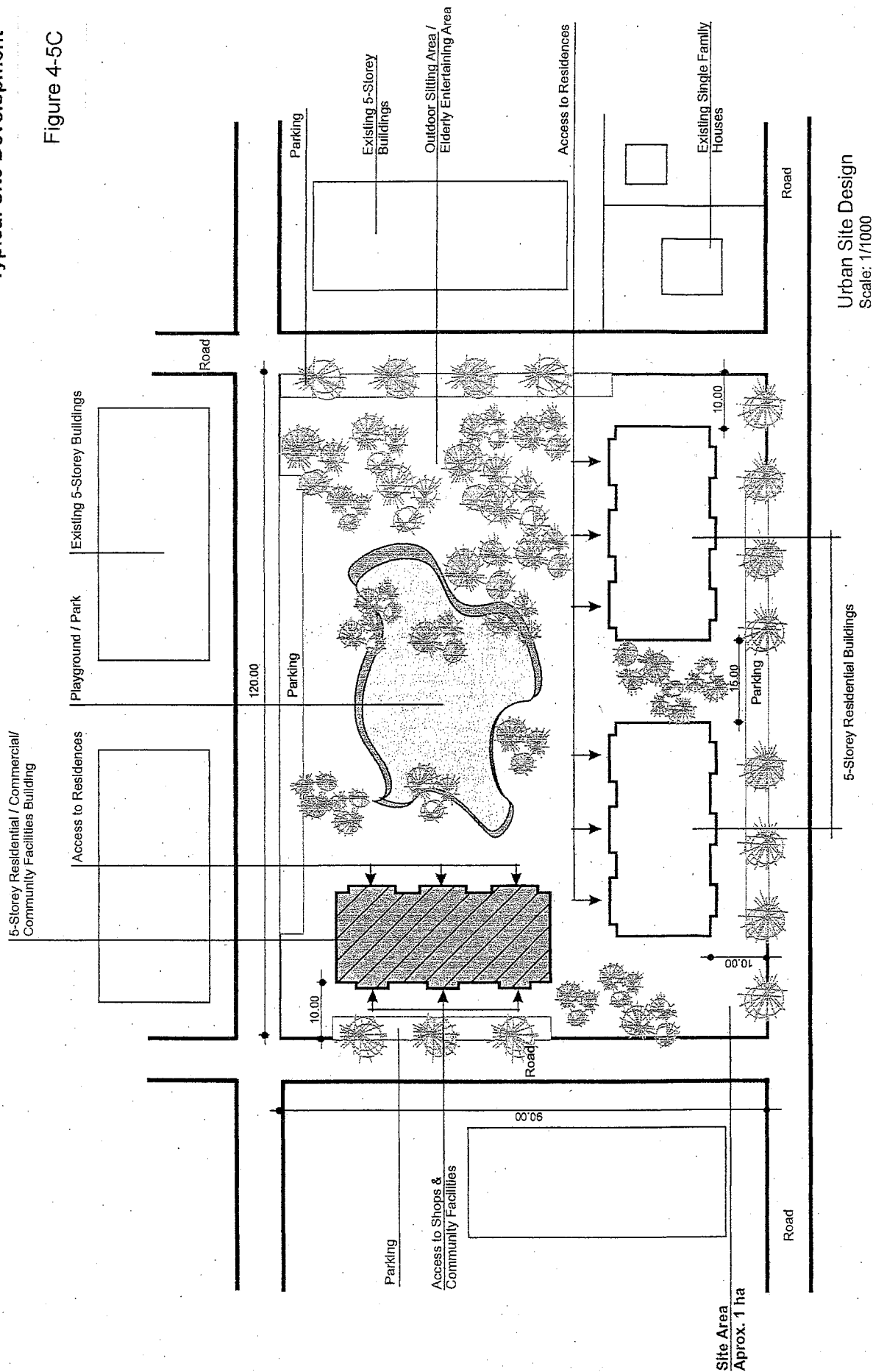
Figure 4-5b



Elevation
Scale: 1/200

Typical Site Development

Figure 4-5C



and ultimately to private condominium ownership as access to housing finance and communal management approaches become more prevalent.

4.5.4.2 Housing Costs

Construction costs for both buildings and infrastructure were established from costing information for buildings constructed in recent and on-going projects by private sector developers, government agencies and international NGO's involved in similar work. All costs reflect current pricing with appropriate inflation applied to previously completed projects. Construction costs for both single family and multi-unit developments of the basic standards proposed by the SII are currently in the US\$170-200 per m² range, excluding external infrastructure connections and land costs.

Annex L presents detailed cost estimates for the preferred housing option with cost estimates for each town's SII component presented below.

4.5.4.3 Detailed Design

Detailed design and preparation of construction and tender documents will be part of SII implementation tasks.

4.5.5 Schools and Housing Site Selection

4.5.5.1 School Selection Process

Following approval of the overall school clearing/IDP housing concept with SCRI, SFDI, the Ministry of Education and respective town authorities, a detailed assessment process was undertaken. The school selection process started with a request by the PPTA consulting team to the LEAs, Municipalities and representatives of the State IDP organizations of the three SII towns for a long list of the schools inhabited by IDP families, with details of the number of families and people in each school. The listings were evaluated and a sample of the schools was visited by a multi-disciplinary consulting team. School selection took into account the following criteria:

- those schools most needed for reclamation, based on community education needs;
- most seriously affected schools (i.e., most classrooms/areas occupied);
- greatest IDP needs/most densely populated buildings; and
- schools most suitable for rehabilitation.

Discussions with the target populations (some groups occupying the same school) indicated that the people desire to be moved together, as a community.

As a result of meetings with the Heads of the LEAs or their Deputies, Heads of the Education Departments and local IDP organisations representatives, a short list

was agreed to regarding priority schools to be selected for clearance under the SII in each town.

A balance was sought among the three SII towns to bring about fair and equitable impacts on the education system and the secondary school facilities. Barda has the highest number of IDP families inhabiting schools (841), compared to Mingechevir (485) and Sumgayit (118).

Based on an assessment of the numbers of schools and their IDP populations, it was found that by allocating seven of the proposed buildings to Barda, eight of the chosen secondary schools could be cleared. In Mingechevir, ten secondary schools could be cleared if five buildings were constructed; in Sumgayit the provision of two of the proposed buildings would enable the clearance of all seventeen secondary schools chosen for clearance, along with a Boarding School. The following sub-sections provide details of the approach.

4.5.5.2 Housing Site Selection Process

Concurrent with discussions on priorities with the LEAs and Municipalities, appropriate building sites for construction of new apartment buildings within the towns were identified. Identification of building sites was based on the following criteria:

- central urban location with easy access to goods, services, social facilities, employment opportunities and existing infrastructure;
- space available for appropriate medium-density, multi-storey housing with adequate open space;
- consistency with the town's longer-term development strategies;
- adequate service (or possibility for service) by access road access, water, sanitation, electricity and gas; and
- ownership of land by Municipalities, or possibility of land transfer to Municipalities.

Based on consideration of the above criteria, building sites were selected by the town authorities. Site visits were made by members of the PPTA team to assess them for suitability with regard to location, size, accessibility and environmental issues.

4.5.5.3 Remaining Steps

The final site selection will take place during the final design stage of the SII. The various stages of the application procedure to obtain permission from the LEA/Municipalities for the SII to construct apartment blocks on the selected sites are described in Annex I.

4.5.6 Barda - Housing Proposal

4.5.6.1 Recommended Schools to Vacate

At a meeting held in July 2005 in the offices of the Barda LEA⁵⁵, the seven secondary schools were chosen as top priority for clearance of IDP. Vocational School No. 47 was later added. The schools were chosen from a long list of seventeen IDP inhabited schools:

Table 4-5: Barda Schools Chosen for Clearance of IDP Families			
No.	School Type and No.	No. of IDP Households Occupying Building	No. of People
1	Secondary School No. 1	44	144
2	Secondary School No. 2	127	389
3	Secondary School No. 3	61	181
4	Secondary School No. 4	77	262
5	Secondary School No. 5	45	148
6	Secondary School No. 6	1	1
7	Secondary School No. 7	5	17
8	Vocational School # 47	36	137
	Totals	396	1,279

According to a Ministry of Education list of schools for construction or major rehabilitation, Secondary School No. 7 is proposed for capital works.

It should be noted that the numbers of families inhabiting the schools may change with time. The data shown above was provided by the SCRI as of July 2005.

As can be seen from the table, the total number of households inhabiting the eight schools is 396 (1,279 people). Details of student numbers, number of rooms inhabited by IDP families together with numbers of rooms available for teaching in each of the chosen schools are given in Annex J.

The location of the schools is illustrated on Figure 4-6.

4.5.6.2 Proposed Housing Sites

During a number of visits to Barda, the PPTA team was shown, by the head of the Architecture and Construction Dept.⁵⁶, six sites that were considered suitable for the construction of apartment buildings within the Barda urban boundaries. A list of

⁵⁵ Those present at the meeting were the Deputy Head of the LEA, Mr. Rafiq Narimanov, Head of the Education Department, Mrs. Rahila Ismailova, the local Representative of the State Committee for Refugees and IDPs, Mr. Jumshud Agajanov, and the TA team.

⁵⁶ Mr. Sashar Zamanov

the building sites and their compliance with the criteria for choosing sites is provided in the table below. Full details of each of the sites are given in Annex K.

Table 4-6: Proposed Building Sites in Barda – Compliance with Site Selection Criteria							
Building Site No.	Est. Area/ No. of blocks possible	Urban location	Appropriate for proposed housing with open space	Consistent with town long term dev. strategy	Road access & services accessible	Land ownership	Environmental and other site issues
No. 1	5,600 sq.m.	Yes	No	Yes	Yes	State	Narrow site, foundations & IDP inhabited bldg. on site.
No. 2	20,000 sq.m./ up to 6 buildings	Yes	Yes	Yes	Yes	State (Ministry of Education)	Exstg. foundations for school and one IDP inhabited house on site (8 families)
No. 3	11,250 sq.m./ 3 to 4 buildings	Yes	Yes	No	Yes	State (Ministry of Education)	Stadium of boarding school inhabited by IDPs could not be used unless IDPs in school are re-housed by the SII.
No. 4	6,400 sq.m.	Yes	Yes	No	Yes	State (Ministry of Transport – Dept. of Railways)	Sanitary Protection Zone for water supply to railway and town – not available.
No. 5	2,500 sq.m./ 1 building	Yes	Yes	No	Yes	State (Ministry of Education)	Next-to and on land of Agric. Voc. school
No. 6	13,175 sq.m./ up to 4 buildings	Yes	Yes	No	Yes	State (Ministry of Education)	In stadium or area in front of Sch. No. 5 (inhabited by IDPs and proposed for clearance by SII)

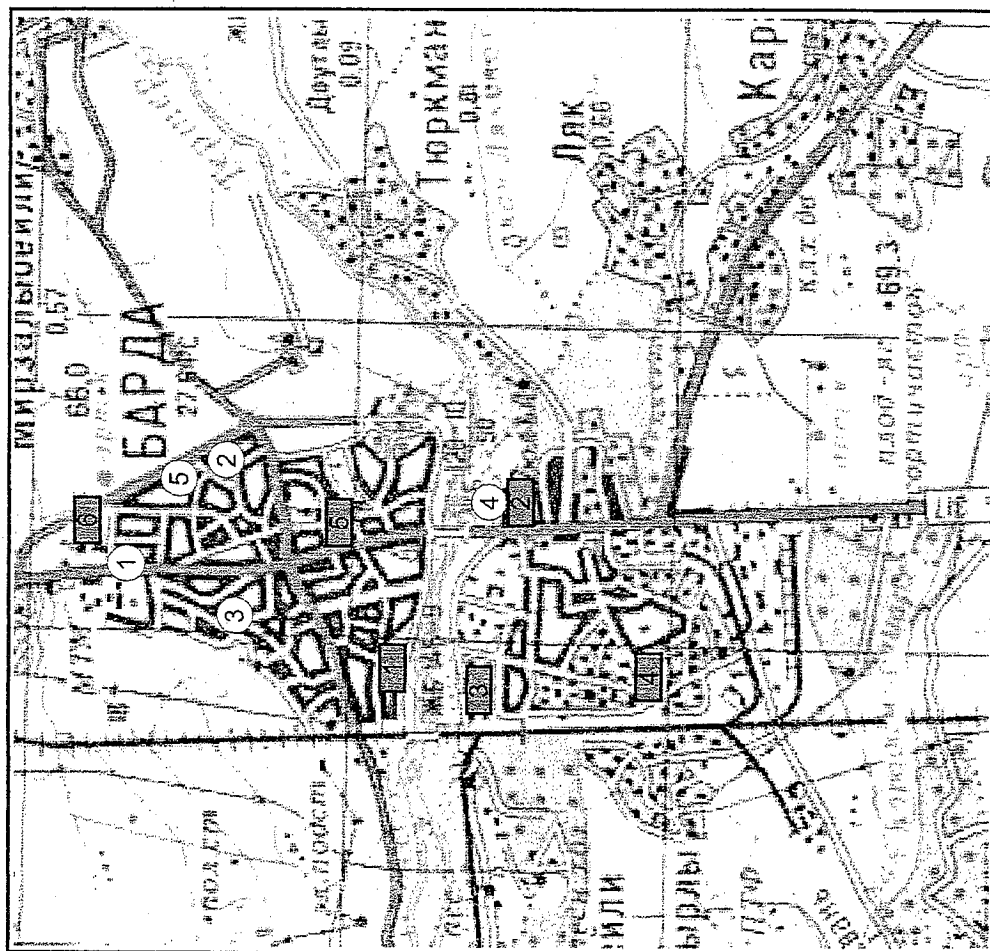
4.5.6.3 Building Sites found unsuitable or unavailable

Buildings Site Nos. 1, 4 and 5 were found unsuitable or are unavailable for the various reasons described in detail in Annex K and summarised in the table below:

Table 4-7: Barda Building Sites Found Unsuitable	
Building Site No.	Reasons for not being able to consider the site for use by the SII
No. 1	Found to be too narrow in width, too close to a busy road and the existence of an IDP inhabited building on the site.
No. 3	In order to avoid social conflict, this site could only be utilized if it was possible to include the Boarding School for clearance under the SII. Unfortunately this is not the case due to financial constraints and the secondary schools being given priority for clearance of IDP families.
No. 4	This site is owned by the Department of Railways (Ministry of Transport) and is the main water source for the railway and part of the town. The project team was misinformed initially as to the use of the site.
No. 5	It is unlikely that permission would be granted by the Ministry of Education for the use of this site by the SII as it is part of the grounds of the Agricultural Technical School and the SII is not in a position to clear the school dormitories of IDP families.

Barda School Selection - Housing Site Location

Figure 4-6



Proposed Housing Site

Selected Schools
(Official Registration Number)



4.5.6.4 Preferred Building Sites and Options for Use

The preferred building sites are illustrated on Figure 4-6.

Building Site No. 2 – This site is the preferred site due to its closeness to the centre of town, all services, transport, markets and utilities. The site is large enough to accommodate all five or six apartment buildings envisaged for construction in Barda. The main drawback to the use of this site is the need to demolish some existing school foundations and the possible need to re-house eight IDP families occupying a house on the site;

Building Site No. 6 – This site would be particularly acceptable as it is next to school No. 5 which is proposed for clearance of IDPs by the SII;

Agreement will have to be reached with all stakeholders on two available options:

First Option - the playing field/stadium of School No. 5, would be utilised for construction and the area in front of the school be redeveloped into the school playing field/stadium, or;

Second Option - the area in front of the school would be the selected building site.

4.5.6.5 Housing

As stated above, the number of families occupying the eight chosen schools in Barda is 396 families. To house this number of families requires seven apartment blocks, six of capacity 60 units each and one of 48 units. The total number of families that could be housed in these buildings is 408, thereby incorporating a surplus of 12 units that could be available for new families.

With regard to location of the six buildings required to house the IDP families, the following distribution is proposed utilising the two building sites available in Barda.

Building Site No. 2 – It is proposed that four apartment blocks of 60 units each are constructed at this site. This will provide enough units to accommodate families presently inhabiting Secondary School Nos. 1, 3, 4, 6, 7 and Vocational School No. 47. Four families currently inhabiting School No. 2 can also be accommodated. School No. 4 is close to the site, leaving those IDP families close to their present location.

Site No. 2 is a large site and the construction of only four buildings on the site could be accomplished without the need to relocate the 8 IDP families presently inhabiting a house on the site. Demolition of at least some of the existing school foundations will be required. If necessary the 8 IDP families could be re-housed in some of the 12 spare units referred to above, provided this was acceptable to all concerned.

Building Site No. 6 – The construction of three apartment buildings, two of 60 units each and one of 48 units, is proposed for this site. This will accommodate all 45 families inhabiting Secondary School No. 5 and 123 of the families from School

No. 2. School No. 2 is located close to School No. 5 and so this would mean that the majority of the families from both the schools would remain in the area familiar to them. In addition they would benefit from the business incubator and community facilities to be provided on the ground floor of the 48-unit building.

4.5.6.6 Infrastructure

According to the Head of the Architecture and Construction Dept. in Barda, one of the main problems in the city is the lack of an operational sewerage system. Though sewer pipes were laid some twenty years ago, the construction of the system was not completed and the sewage is discharged, untreated, into the river. Pumping stations and a waste water disposal plant are still required. As such, some form of sewage treatment system is required for any new housing constructed in the city. It is proposed, at this stage, that a suitably sized septic tank and drain-field be provided for each building and this is included in the estimate of costs for external services for the proposed development.

Other services, including water supply, electricity and gas, are available throughout the town with restrictions in some areas due to inadequate distribution.

4.5.6.7 Housing Costs

1. Land

Each of the proposed buildings will have a plan area of 640 square metres requiring a site area of 1,920 square metres. Land costs are estimated as follows:

Building Site No.	No. of Buildings	Sq.m. req'd. per building	Total area req'd.(sq.m.)	Cost per sq.m. (\$)	Cost (\$)
No.2	4	1,920	7,680	4	30,720
No. 6	3	1,920	5,760	4	23,040
Totals	7		13,440		53,760

These land costs will be included as part of the Azerbaijan Government contribution.

2. Buildings

As stated above, it is proposed to construct seven five-storey buildings in Barda. The construction cost of one building is estimated at US \$ 640,000 (see Annex L for cost breakdown).

The seven buildings proposed for construction in Barda will cost US \$ 4,480,000.

3. Infrastructure

Each of the buildings will require connection to the adjacent road system, water supply system, electricity supply, etc.. The estimated cost of these external service connections is approximately **US \$ 25,600 per building** for a total of \$179,200 for seven buildings in Barda (see Annex L for cost breakdowns). In the case of Barda, where there is no sewerage system in existence, it is proposed to construct a septic tank with drain-field for each building.

The table following provides a summary of housing costs for Barda:

Table 4-9: Barda Housing Costs	
Component	Base Cost (\$)
Land	53,760
Buildings	4,480,000
Infrastructure (Ext. services)	179,200
Totals	\$ 4,712,960

4.5.6.8 Direct Beneficiaries

Direct beneficiaries include the 396 relocated families (1,279 people), and the students gaining access to improved education facilities. This provides an indirect benefit to the entire community within which the schools are located and the town as a whole.

Annex J shows that 276 classrooms will become available again for teaching purposes, which is 83% of the original 331 classrooms in the eight schools proposed for clearance.

The main benefit to the schools will be that once again there is sufficient teaching space available to enable the present shift system to be dropped. The majority of the schools listed have to operate a three-shift system at present. Presently there are 5,637 children attending these eight schools and this number could increase with the improved conditions. The clearance of 276 classrooms means an additional 8,280 student spaces, assuming average class sizes of 30 students.

Assuming an average of two children per families in the study area, approximately 5,600 local families will benefit from the clearance of the schools.

4.5.6.9 Outstanding Issues

For the proposals outlined above to be implemented , the following outstanding issues will need to be resolved:

- **Building Site No. 2:** In addition to the granting of permission to build on the site by the town authorities, permission will have to be sought from the

Ministry of Education for proposed new use of the land and the demolition of the existing school foundations.

- Building Site No. 6: Agreement will have to be reached with the Ministry of Education to build on land that is part of an operational school, i.e. Secondary School No. 5.

4.5.7 Mingechevir - Housing Proposal

4.5.7.1 Recommended Schools to Vacate

The secondary schools chosen to be cleared of IDP families in Mingechevir were confirmed at a meeting in the Mingechevir LEA office on the 11th July 2005⁵⁷ and include those shown in the Table below. The schools were chosen from a long list of seventeen schools.

No.	School Type and No.	No. of IDP Families occupying	No. of People
1	Secondary No. 1	22	93
2	Secondary No. 2	23	93
3	Secondary No. 6	51	127
4	Secondary No. 7	30	111
5	Secondary No. 9	33	127
6	Secondary No. 10	11	40
7	Secondary No. 13	42	203
8	Secondary No. 14	54	232
9	Secondary No. 15	16	69
10	Secondary No. 17	18	74
	Totals	300	1,169

The Table above shows that a total of 300 families (1,169 people) inhabit the ten schools. Details of student numbers, number of rooms inhabited by IDP families, together with numbers of rooms available for teaching in each of the chosen schools are given in Annex J.

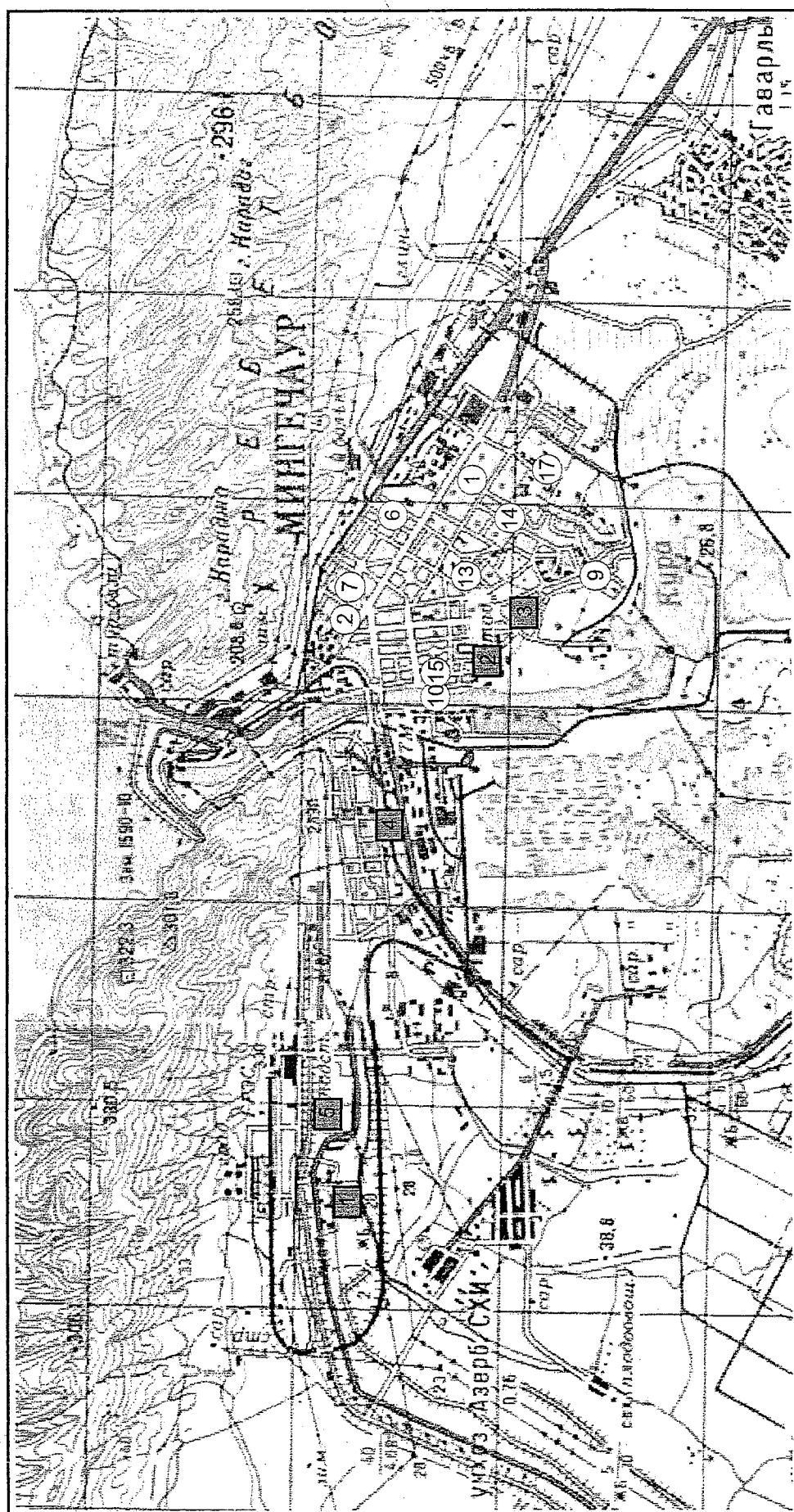
According to a Ministry of Education list of schools for construction or major rehabilitation, Secondary School No. 2 is proposed for capital works.



The location of each of the above schools is shown on Figure 4-7. As can be seen, they are all located in the urban area of Mingechevir and evenly spread over the central area of the town.

⁵⁷ Those present at the meeting were the Head of the LEA, Mr. Lutfali Babaev, Head of Architecture and Construction, Dr. Efibar Abdullayev, LEA Representative for IDPs, Mr. Mail Huseynov, the SCRI Representative, Mr. Mahar Shirinov, and the TA team.

Azerbaijan
Social Infrastructure for IDP and Vulnerable Populations
Mingechevir
School Selection - Housing Site Location

Figure 4-7



-  Proposed Housing Site
-  Selected Schools
(Official Registration Number)

4.5.7.2 Proposed Housing Sites

During a visit to Mingechevir in July 2005, the PPTA Team was shown five building sites considered suitable by the LEA for the construction of apartment buildings within the Mingechevir urban boundaries.⁵⁸ A list of the building sites and their compliance with the criteria for choosing sites is provided below in the following table. Full details of the building sites are provided in Annex K.

Building Site No.	Est. Area / No. of buildings possible	Urban location	Appropriate for proposed housing with open space	Consistent with town long term development strategy	Road access & services accessible	Land ownership	Environmental and other site issues
No. 1	13,000 to 15,000 sq.m./ 5 to 6 buildings	Yes	Yes	Yes	Yes	State (Hakimiat)	Near thermal power station – env. tests for air and soil pollution would be required.
No. 2	14,500 sq.m./ 5-6 buildings	Yes	Yes	Yes	Yes	Municipality (land) and MOED (structures)	Foundations and part constructed bldgs. on site
No. 3	14,500 sq.m./ 5-6 buildings	Yes	Yes	Yes	Yes	Municipality (land) and MOED (structures)	Clear site with good amenities close by. No social or enviro. issues.
No. 4	Up to 50,000 sq.m./ > 6 buildings	Yes	Yes	Yes	Yes	Municipality	Good area and location but some enviro. & social issues.
No. 5	10,000 sq.m./ up to 4 buildings	Yes	Yes	Yes	Yes	Municipality (land rented to farmer for agricultural use)	Land rented out for agric. use. Closeness to thermal power stn. raises enviro. concerns.

4.5.7.3 Building Sites found unsuitable or unavailable

Buildings Site Nos. 4 and 5 were found unsuitable as described in Annex K and summarised below.

⁵⁸ The site visits were conducted by the Chief Architect, Dr. Efibar Abdullayev, for Building Site No. 1 and the Deputy Head of the LEA, Mr. Ali Ganayev, for the Building Site Nos. 2 to 5.

Table 4-12: Mingechevir Building Sites Found Unsuitable	
Building Site No.	Reasons for not being able to consider the site for use by the SII
No. 4	Re-activation of the adjacent industrial processes and/or construction of the new railway station and re-activation of the section of railway line bordering proposed site would create conditions for a harmful environment. About 80% of the proposed area is occupied by a fruit garden, with fruit trees and bushes grown by people from the neighbouring apartment buildings. These gardens are likely to be considered as part of the household economy. The loss of the gardens in this case may have significant social and environmental impacts and damage to individual household economies.
No. 5	Environmental concerns such as the closeness to the industrial area of the thermal power plant and its railway outlet combined with a possible land ownership/use conflict.

4.5.7.4 Preferred Building Sites and Options for Use

Preferred building sites are shown on Figure 4-7.

Building Site No. 3 – This site is level, clear of structures and mainly grass land with clumps of trees on some parts. Schools and a community meeting hall are nearby. Up to six apartment buildings could be accommodated on this site.

Building Site No. 2 – This site is large enough in area to accommodate as many as six apartment blocks, but has on it the foundations of four apartment blocks, a partly constructed apartment building constructed up to three storeys (inhabited by 8 IDP families) and a completed four storey apartment block (inhabited by IDPs who completed the building themselves). In addition to these structures, there is another partially-constructed building of prefabricated concrete slab construction on the edge of the site. The foundations and structures are owned by the Ministry of Economic Development.

Building Site No. 1 – This site was acceptable on all counts, except for some environmental concerns pertaining to air and soil pollution due to the proximity of the thermal power plant. Appropriate testing would be required to ascertain levels of pollution on the site before it could be utilized by the SII.

4.5.7.5 Housing

The 300 selected families can be adequately housed in five apartment buildings of 60 units each.

It is proposed that all five buildings be constructed on Building Site No. 3 as first preference. If for any reason this is not possible then Building Site No.2 would be the second preference. There is no advantage in splitting the buildings between the two sites as they are close together. The final option would be Building Site No. 1, provided the air and soil qualities are found acceptable.

4.5.7.6 Infrastructure

The construction of additional apartment blocks within the city will put additional strain on the services. The effect of this would have to be investigated during the final design stage of the SII. The PPTA Team was made aware that sewerage

from the city is not treated before being discharged into the river. If this situation does not improve by the final design stage of the SII then septic tanks will have to be included to serve the buildings proposed for construction.

4.5.7.7 Housing Costs

In Mingechevir it is proposed to construct five five-storey apartment buildings of 60 units each. It is proposed that all five buildings be constructed on Building Site No. 3.

1. Land

Each of the proposed buildings will be of the same design and will have a plan area of 640 square metres, requiring a site area of 1,920 square metres. Land costs are estimated as follows:

Table 4-13: Land Costs for Mingechevir					
Building Site No.	No. of Buildings	Sq.m. req'd. per building	Total area req'd. (sq.m.)	Cost per sq.m. (\$)	Cost (\$)
No.3	5	1,920	9,600	6	57,600
Totals	5		9,600		57,600

The land costs will be included as part of the Azerbaijan Government contribution.

2. Buildings

As stated above, it is proposed to construct five five-storey buildings of 60 units each. The construction cost of one building has been estimated as US \$ 640,000. (see Annex L for cost breakdown).

The five buildings proposed for construction in Mingechevir will cost US \$ 3,200,000.

3. Infrastructure

Each of the buildings will require connections to the adjacent road system, water supply system, electricity supply, etc.. The estimated cost of these external service connections is about US \$ 25,600 per building for a total of \$128,000 for 5 buildings in Mingechevir (see Annex L for cost breakdowns). In the case of Mingechevir, where there is an inadequate sewerage system in existence, it is proposed to construct a septic tank with drain-field for each building.

The table below provides a summary of housing costs for Mingechevir.

Table 4-14: Mingechevir Housing Costs	
Component	Base Costs (\$)
Land	57,600
Buildings	3,200,000
Infrastructure (Ext. services)	128,000
Totals	\$ 3,385,600

4.5.7.8 Direct Beneficiaries

Direct beneficiaries include the 300 relocated families (1,169 people), and the students gaining access to improved education facilities. This provides an indirect benefit to the entire community within which the schools are located and the town as a whole.

Annex J shows that 214 classrooms will become available again for teaching purposes, which is 58% of the original 370 classrooms in the 10 secondary schools proposed for clearance.

The main benefit to the schools will be that once again there is sufficient teaching space available to enable the present shift system to be dropped. The majority of the schools listed have to operate a three-shift system at present.

Presently there are 5,795 children attending these 10 schools that were originally designed for 5,952 children. This number could be achieved again and increased with the improved conditions. The clearance of 214 classrooms means an additional 6,420 student spaces, assuming average class sizes of 30 students.

Assuming an average of two children per family in the SII area, approximately 5,700 local families will benefit from the clearance of the schools.

4.5.7.9 Outstanding Issues

For the proposals outlined above to be implemented, the outstanding issues described below will need to be resolved:

- Building Site Nos. 3 and 4: Application for permission to build on the sites and for connection of services will require to be submitted to the town authorities and utilities companies;
- Building Site No. 2: In addition to the granting of building permits by the town authorities, permission will have to be sought from the Ministry of Economic Development for the demolition of the existing apartment building foundations.

4.5.8 Sumgayit - Housing Proposal

4.5.8.1 Recommended Schools to Vacate

The following list of schools was derived from a long list of twenty-five schools chosen for clearance of IDP families, as provided to the PPTA team by the head of the Educational Department of Sumgayit City⁵⁹.

The chosen schools include all the secondary schools in Sumgayit as well as one boarding school which is in accordance with the adopted project approach.

Table 4-15: Sumgayit Schools Chosen for Clearance of IDP Families		
School Type and No.	No. of IDP Families occupying	No. of People
Secondary No. 3	24	86
Secondary No. 5	5	14
Secondary No. 8	3	12
Secondary No. 12	4	262
Secondary No. 13	1	4
Tefekkur Lyceum	2	7
Secondary No. 14	1	4
Istedad Lyceum	1	7
Secondary No. 16	1	2
Secondary No. 17	28	135
Secondary No. 24	1	6
Secondary No. 28	1	5
Secondary No. 29	1	5
Secondary No. 30	2	7
Secondary No. 35	2	9
Secondary No. 37	1	6
Boarding School	39	140
Totals	118	467

A total of 118 families (467 people) inhabit the 18 selected schools. Details of student numbers and the number of rooms inhabited by IDP families together with numbers of rooms available for teaching in each of the chosen schools are given in Annex J.

According to the Ministry of Education's list of schools slated for construction or major rehabilitation, Secondary School No. 28 is proposed for the construction of 6 new classrooms and Secondary School No. 29 for the construction of 10 new classrooms.

The location of each of the above schools is shown on Figure 4-8 from which it can be seen that they are all located in the urban area of Sumgayit and well spread out throughout the area.

4.5.8.2 Proposed Housing Sites

⁵⁹ Mr. V. Bagirov.

During a visit to Sumgayit during July 2005, the PPTA team were shown (by the head of Architecture and Construction, Mr. Bagit Hasan-Zade) three building sites that are considered suitable for the construction of apartment buildings within the Sumgayit urban boundaries. A list of the sites, and their compliance with the criteria for choosing sites as described above, is provided below. Full details of the sites are given in Annex K.

Table 4-16: Proposed Building Sites in Sumgayit – Compliance with Site Selection Criteria

Building Site No.	Est. Area / No. of buildings possible	Urban location	Appropriate for proposed housing with open space	Consistent with town long term development strategy	Road access & services accessible	Land ownership	Environmental and other site issues
4 5 8 3 B u i l d i n g S i t e s F o	No. 1	9,500 sq.m./ 3-4 blocks	Yes	Yes	Yes	Azer Transport (Ministry of Transport)	Site designated for a new cargo transfer station. Envir. Concerns for air and soil pollution and water logged site.
	No. 2	9,000 sq.m./2-3 blocks	Yes	Yes	Yes	Municipality	In area bordered by densely populated IDP dormitories. Risk of social conflict.
	No. 3	8,000 sq.m./ 2-3 blocks	Yes	Yes	Yes	Municipality	Site clear but part built structure may require demolition.

and Unsuitable

Building Site Nos. 1 and 2 were found unsuitable or are unavailable for reasons as described in detail in Annex K and summarized below:

Table 4-17: Sumgayit Building Sites Found Unsuitable

Building Site No.	Reasons for not being able to consider the site for use by the SII
No. 1	It was found that the site is under the ownership of a state company, Azer Transport that belongs to the Ministry of Transport. The land is designated for the site of a new cargo transfer station. In addition there were environmental concerns for air and soil pollution from the industrial area close by and the site being water logged.
No. 2	The proposed site is bordered by apartment and dormitory buildings densely populated by IDP families and local people. The new housing would generate additional loads on an already densely populated area so creating the risk of social conflicts.

4.5.8.4 Preferred Building Sites and Options for Use

Preferred building sites are illustrated on Figure 4-8.

Building Site No. 3 –The site is level and has sufficient area to accommodate two to three of the proposed apartment buildings. There are no environmental concerns and there is good access to services and roads. A newly constructed 2-storey building that was built by the State to house IDPs is close by.

4.5.8.5 Housing

The 118 families from the selected schools can be adequately housed in two apartment buildings of 60 units each.

Building Site No.3 is suitable for the two proposed buildings.

4.5.8.6 Infrastructure

The construction of additional apartment blocks within the city will put additional strain on services. The effect of this would have to be investigated during the final design stage of the SII. The project team were made aware that only part of the sewage from the city is treated before being discharged into the sea. If this situation does not improve by the final design stage of the SII then septic tanks will have to be included to serve the buildings proposed for construction under the SII.

4.5.8.7 Housing Costs

In Sumgayit it is proposed to construct two five-storey apartment buildings of 60 units each. It is proposed that the two buildings would be constructed on Building Site No. 3.

1. Land

Each of the proposed buildings will be of the same design and will have a plan area of 640 square metres requiring a site area of 1,920 square metres. Land costs are estimated as follows:

Table 4-18: Land Costs for Sumgayit					
Building Site No.	No. of Buildings	Sq.m. req'd. per building	Total area req'd. (sq.m.)	Cost per sq.m. (\$)	Cost (\$)
No.3	2	1,920	3,840	8	30,720
Totals	2		3,840		30,720

These land costs will be included as part of the Azerbaijan Government contribution.

2. Buildings

The estimated cost of one five-storey building of 60 units is \$640,000 each or 1,280,000 total for Sumgayit's two proposed buildings. See Annex L for cost breakdowns.

3. Infrastructure

Each of the buildings will require connection to the adjacent road system, water supply system, electricity supply, etc.. The estimated cost of these external service connections is US \$ 25,600 per building for a total of \$51,200 for 2 buildings in Sumgayit (see Annex L for cost breakdowns). Sumgayit also has an inadequate sewerage system and it is proposed to construction a septic tank with drain-field for each new building.

Table 4-19 summarises housing costs for Sumgayit:

Table 4-19: Sumgayit Housing Costs	
Component	Base Costs (\$)
Land	30,720
Buildings	1,280,000
Infrastructure (Ext. services)	51,200
Totals	\$ 1,361,920

4.5.8.8 Beneficiaries

Direct beneficiaries include the 118 relocated families (467 people), and the students gaining access to improved education facilities. This provides an indirect benefit to the entire community within which the schools are located and the town as a whole.

IDP families in Sumgayit are occupying various support and common spaces in the selected schools - gymnasiums, canteens, meeting rooms, workshops, etc. (see Annex J). These spaces will again be available for educational and recreational uses.

Schools in Sumgayit are overcrowded, with 20,980 children attending schools designed for 12,571, and clearing the schools of the IDP families will provide additional space to cope with the problem.

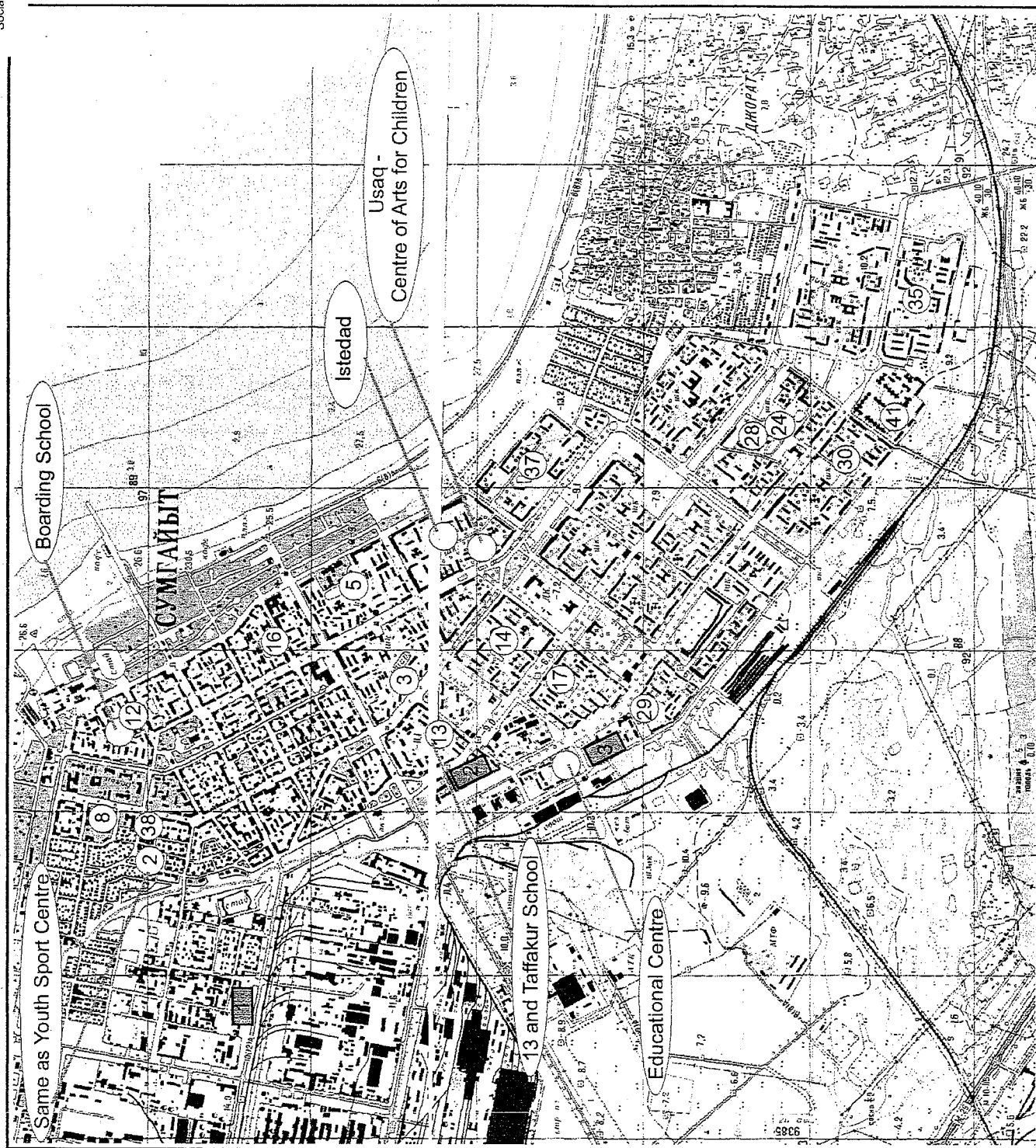
4.5.8.9 Outstanding Issues

For the proposals outlined above to be implemented then the outstanding issues described below will have to be resolved:

Building Site No. 3 – Application for permission to build on the site and for the connection of services will require to be submitted to the town authorities and utilities.

Sumgayit School Selection - Housing Site Location

Figure 4-8



4.5.9 Summary of Housing Proposals⁶⁰

Based on the situation as of July 2005, the housing proposals for each town can be summarised as shown below:

Table 4-20: Summary of the Housing Proposals for the 3 Towns					
Town	Building Site No.	No. of IDP families re-housed on that Site.	No. of schools previously inhabited by the IDPs.	No. of new buildings on the Site.	Estimated Cost (\$)
Barda	No. 2	228	6 schools	4	
	No. 6	168	2 schools	3	4,712,960
Mingechevir	No. 3	300	10 schools	5	3,385,600
Sumgayit	No. 3	118	18 schools	2	1,361,920
Totals		814	36	14	9,460,480

4.6 Implementation and Management Arrangements for the SII

4.6.1 State-Level Institutions and Organizational Structure for SII

The proposed institutional arrangements for implementation and management of the SII are shown on Figure 4-9. The State Committee for Refugees and IDPs (SCRI) (see Figure 4-10) will be the Executing Agency (EA) for the SII. An inter-ministerial Project Steering Committee (PSC) will be established, with other members drawn from the Ministries of Finance, Economic Development, Justice and Education. A representative from ADB will participate in the PSC meeting as an observer. The PSC will first meet within two months from the date of loan effectiveness, and thereafter at least twice a year to provide overall coordination and guidance and/or address any urgent issues that may require inter-ministerial coordination/inputs.

SCRI (which employs 70 personnel) is the government agency responsible for the registration, settlement and provision of relief to refugees and IDPs. As its primary focus is the administration of humanitarian assistance (e.g. monthly payments to IDPs for food and communal services), SCRI has little experience in community-level development, consultation and participatory processes. It does not, itself, implement projects, but rather relies on the Social Fund of Development of IDPs (SFDI) as its Implementing Agency.

SFDI will act as the Implementing Agency (IA) for the SII. This agency was originally established by the Council of Ministers as the IA for a World Bank and

⁶⁰ The housing proposals put forward are based on the data and information available as of July 2005. It should be noted that the numbers of IDP families inhabiting the schools shifts over time. School priorities may also change as a result of the resettlement programmes that are currently taking place.

GoAZ joint project aimed at improving the living standards of IDPs and refugees through community-based social infrastructure projects and creation of new employment opportunities through micro-finance programmes. Figure 4-11 illustrates SFDI's management and staffing structure. There is a ten-member Board of Directors, which includes Government, local NGO, private sector and international agencies. The Board is chaired by the Chairman of SCRI with all members appointed by the Cabinet of Ministers. SFDI staff handle the daily requirements of the office and consultants are retained when required to assist with capacity building or to manage project-specific Project Implementation and Management/Units (PIMUs).

SFDI has completed/is currently implementing approximately US\$150 million worth of projects with a further US\$150 million planned, including the present SII. Managed funds have come from many agencies including the World Bank, the Azerbaijani State Oil Fund, UNDP, UNHCR, the Azerbaijan Embassy in Turkey, the Greek Embassy in Azerbaijan and the State. The Islamic Development Bank will be added to the list during 2005⁶¹. Under its original World Bank funding of US\$10 million, SFDI has implemented almost 200 IDP-related social infrastructure and assistance sub-projects with a total value of approximately \$7.5 million and provided micro-finance to new businesses in the amount of \$2.1 million. SFDI's activities include: consultations with central and local executive agencies, NGOs (national and international), IDP communities and Baladiiyas; promotion of SFDI activities; capacity-building through social infrastructure micro-project implementation (with projects typically ranging between \$5,000 and \$50,000 but going as high as \$300,000); and micro-credit in support of income-generating activities. Implementation of micro-projects is carried out through competitive bidding processes while micro-finance projects are implemented by Micro-Finance Institutions (MFI) and Credit Unions.

It is proposed that a Project Implementation and Management Unit (PIMU) be set up under the SFDI, along with local Project Implementation Units at the regional town level. The PIMU will be headed by a Project Director (PD) acceptable to the ADB. The PIMU will be staffed with a complement of Azerbaijani professional and technical personnel, assisted by management, design and supervision consultants as required. The PIMU will:

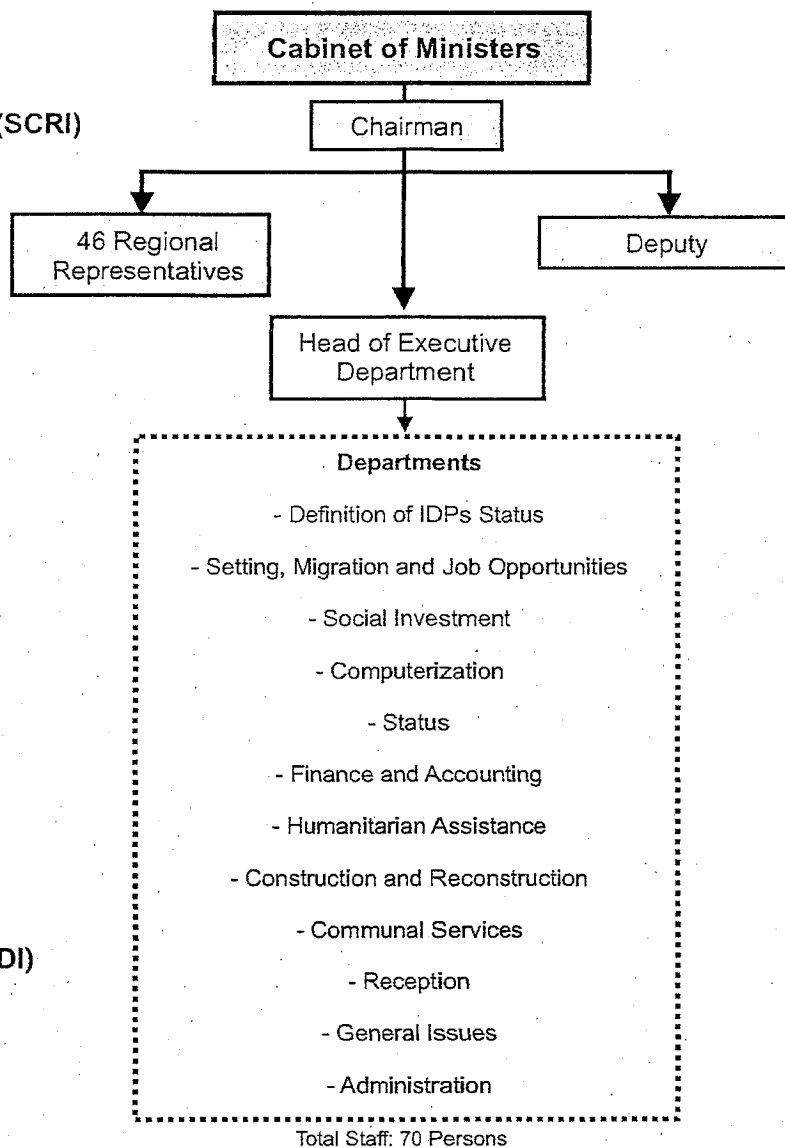
- coordinate with other agencies concerned;
- carry out general project management and the supervision of detailed engineering design, procurement, construction supervision;
- prepare an overall implementation plan and annual budget;
- procure contractors for implementation of the physical works at the town level;
- maintain financial accounts;
- prepare quarterly progress reports, and a final SII completion report;
- organize M&E activities; and
- direct activities under the social and community awareness programme.

⁶¹ Annex F provides details of activities completed by SFDI, along with the typical Micro-Project Implementation Cycle.

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graph TD
    PSC[Project Steering Committee (PSC)] <--> EA[EA SCRI]
    EA --> IA[IA SFDI]
    IA --> PIMU[PIMU]
    PIMU --> LTU[Local Town Unit of PIMU]
    LTU --> LOS[Local Office of SCRI]
    LTU --> TACC[Town Advis./ Invest. Comm; Re-Housing Commission]
    TACC -- Cooperate --> LSG[IA Local Self-Government (Baladiyya)]
    TACC --> LEA[LEA]
    LOS -- Supervise --> CCS[Consultants Contractors Suppliers]
    TACC -- Procure --> CCS
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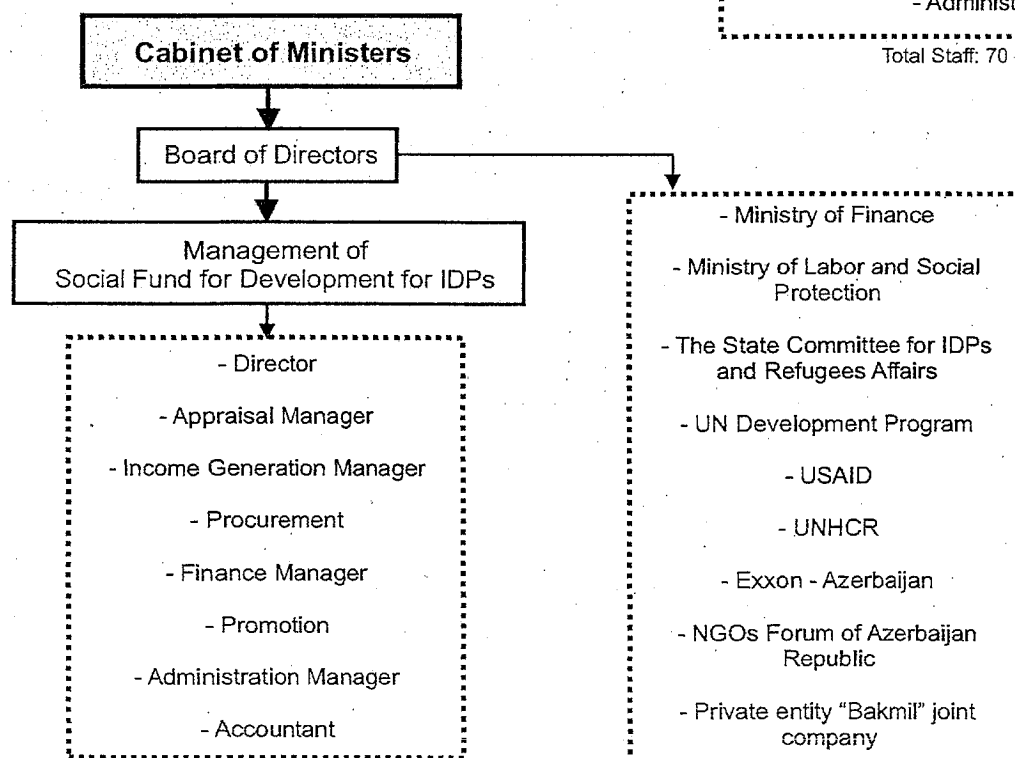

Institutional Structure State Committee for Refugees and IDPs (SCRI)

Figure 4-10



Institutional Structure Social Fund for Development of IDPs (SFDI)

Figure 4-11



The PIMU will include an accounting function to deal with procedural aspects, record financial transactions and prepare liquidation statements and replenishment requests.

Procurement contracts for the physical works will be centralised at the PIMU. SFDI has a well laid out procurement procedure which is followed for procurement of works and contracts for all externally aided programmes, and programmes carried out through the resources available under the State Oil Fund.

4.6.2 Implementation at the Municipal Level

Actual implementation of the SII will be carried out in the SII towns under the technical supervision and guidance of a Local Project Implementation and Management Unit (LPIMU), staffed with qualified persons and headed by a Project Implementation Officer (PIO). The local units will be responsible for the day-to-day management and implementation of the respective physical works carried out through the contractors, and for preparing an annual development program and annual budget.

A Town Advisory Committee (i.e., a town-level version of the PSC) will be established in each town to guide the SII implementation process.

As part of the overall counterpart funding, the local municipalities (Baladiiyas) are to provide land for the construction of the new apartment buildings. Where the lands selected for construction of the apartments are in the possession of the Local Executive Authorities, the LEA should transfer possession to the Baladiiyas within six months of the SII commencement. Upon relocation of the IDPs, apartment blocks will be maintained by the State Committee for Refugees and IDPs (SCRI). In the event of return of the IDPs to their place of origin, the apartment blocks it is anticipated that the buildings can be transferred to Baladiiyas and owned by them, thus providing income-generating opportunities.

4.6.3 Staffing

PIMU and LPIMU staffing requirements for the three year implementation period are illustrated on Table 4-21 below.

Table 4-21: Staffing Requirements for Project Implementation Units						
No.	Position	Baku PIMU	Barda LPIMU	Mingechevir LPIMU	Sumgayit LPIMU	Total
1	Project Manager (PM)	1				1
2	Project Implementation Officer		1	1	1	3
3	Accounts Officer	1				1
4	Procurement Officer	1				1
5	Social/Community Development Specialist	1				1
6	To be named	1				1

	Support staff					0
7	Accountant	2	1	1	1	5
8	Administrative Officer	1				1
9	Office Assistant	2	1	1	2	6
	Total	10	3	3	4	20
	Implementation Period - Years	3	3	3	3	3
	Allocated Person months	360	108	108	144	720

4.6.4 Consulting Services

The Government will select and engage international consultants working in association with domestic consultants to assist the PIMU under SCRI for implementation and management in accordance with ADB's *Guidelines on the Use of Consultants by the ADB and its Borrowers* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The consultants will be recruited using ADB's Quality and Cost-Based Selection (QCBS) method. The consultants will provide overall project management support, prepare detailed engineering designs, cost estimates, procurement and tender documents; financial management, accounting, reporting support. They will also regularly supervise, monitor progress and quality of works, and oversee resettlement actions. The team leader (in his/her absence, the deputy team leader) will have overall responsibility for the management of consulting services.

The consultancy for SII implementation will be carried out mainly by domestic consultants, requiring an estimated 16 person-months of international and 112 person-months of domestic inputs as shown on the following table. A budget of \$US695,000 has been estimated for this work (see Section 9 – Project Costs). Draft terms of reference for the consultants are attached to this report as Annex O.

Table 4-22: Consulting Requirements: SII	
Contents	Person months
International Specialists	
Team Leader / Urban Planner	12
Architect	2
Construction Supervision (QC) Specialist	2
sub-total	16
Local Specialists	
Dy. Team Leader /Construction Engineer	36
Service Engineer	3
Procurement Specialist	6
Construction Supervision (QC) 2 No.	36

Social and Community Development	4
Financial Management Specialist	6
Capacity Building Specialist	4
Environmental Specialist	3
Survey Specialist	4
Performance Management Specialist	4
To be decided	6
sub-total	112
Total	128

4.6.5 Management and Procurement

The SII will be implemented over a period of three years, beginning in July 2006. Physical completion is expected by June 2009 and loan closing date on 31 December 2009. Government's start-up activities, such as preparing project proformas, establishing PIMU and recruiting consultants should be completed by the second quarter of 2006.

Presidential Decree N 245-IIQ, 29 December 2001 on *Law on Public Procurements*, sets out the principles and rules for effective public procurements by state enterprises and administration departments. Enterprises and organisations in which the State share of charter funds exceeds 30%, and where the loans and grants are obtained by the state and received under the state guarantees, are expected to follow the procedure for all domestic procurements. The procedure outlined is comprehensive but should be reviewed at the beginning of the implementation stage in terms of its adequacy to comply with the ADB guidelines on procurement and its acceptability by the ADB for all domestic procurements. (A summary of the ADB's *Guidelines for Procurement* is provided in Annex Q).

The SII will involve two types of procurement, one for goods and the other for civil works (construction) goods and services. Given the small individual contracts for civil works that will be required over scattered areas, and the execution period of three years, individual contracts are unlikely to attract international bidders. All of the civil work contracts will, it is assumed, be executed by **domestic contractors**. To ensure quality control, the EA will award civil works contracts to pre-qualified contractors following governmental local competitive bidding procedures acceptable to ADB. Local units of the PMU will not carry out any procurement for civil works. To expedite SII implementation, advance action in accordance with ADB's *Guidelines for Procurement* will be undertaken for (i) pre-qualifying contractors, and (ii) preparing tender documents.

Efforts will be made to limit the number of contract packages and engage larger professional contractors so as to shorten the construction period and ensure single accountability for the quality of work. The contract packages will have a minimum value of AzM250 million (\$50,000). The consultants will be involved in preparing all procurement packages, bid document, shortlisting of contractors and suppliers, evaluation of bids and award of contracts.

Procurement packages for goods are unlikely to exceed \$500,000, so most of the procurement will fall under ADB's international shopping (IS) procedures. Direct purchase procedures will be used for small or off-the-shelf items valued at less than \$100,000. The PIMU will be responsible for procuring vehicles and equipment centrally. Advance action for procurement of equipment and vehicles will be required to facilitate the start-up of SII implementation.

With the assistance of an adequate number of suitably qualified accounting staff, the PIMU under SFDI will maintain records for all sources of funding and the SII expenditures in accordance with generally accepted accounting principles. Consolidated project accounts and related financial statements compiled by the PIMU will be audited annually by independent auditors acceptable to ADB. The annual audit will cover all receipts and expenditures, imprest accounts, statement of expenditure (SOE) procedures, and compliance with loan covenants. The audit report will include a separate audit opinion on the use of the imprest account and SOE procedures. The audited accounts, audit report, and related financial statements will be submitted to ADB, in English, within six months after the end of each fiscal year.

The PIMU will receive monthly and quarterly progress reports from the three field units and will consolidate these reports, which will then be submitted to ADB within one month after the end of each quarter. The report will provide information on progress made, problems encountered during the period and steps taken or proposed to be taken to remedy the problems, and the proposed programs for the following quarter. The report will particularly address progress in meeting the targets set for the beneficiaries to be covered during the reporting period. The report will also provide summary financial accounts of the SII, expenditure during the quarter, year-to-date expenditure during the quarter, year-to-date expenditure, and expenditure to date. The PIMU will also submit regular Monitoring and Evaluation (M&E) reports. Finally, within three months of substantial physical completion, an SII completion report will be prepared and submitted by the EA in a format satisfactory to ADB.

Disbursement of ADB loan funds will be undertaken in accordance with the procedures set out in ADB's *Loan Disbursement Handbook (January 2001)*. Soon after loan effectiveness, an imprest account will be established at a bank to be agreed upon by the Government and ADB to facilitate the timely release of loan funds. The Ministry of Finance (MOF) will supervise the imprest account operations. The initial amount to be deposited will be limited to 6 months of estimated SII expenditures, or 10% of the amount, whichever is lower.

PIMU under SFDI will open a bank account into which the ADB funds will be transferred by the MOF from time to time. The operation and management of the SII funds will be in the hands of the PIMU. The Project Director of PIMU will operate the SII account under joint signature with the Team Leader of the MDS consultants, and in the absence of the Team Leader, with the Deputy Team Leader.

The imprest accounts will be managed and liquidated according to detailed arrangements agreed upon by the Government and ADB, and consistent with

ADB's *Loan Disbursement Handbook*. The statement of expenditures (SOE) procedure will be adopted to reimburse eligible expenditures and to liquidate advances provided to the imprest account. It will allow for financing of SII expenditures for (i) civil works awarded on the basis of local competitive bidding, and also for (ii) locally procured construction materials. The imprest account and the SOE procedure will be established, maintained, and audited in accordance with ADB's *Loan Disbursement Handbook*. The SOE procedure is applicable to individual payments below \$50,000. The PIMU will be responsible for preparing disbursement projections, requesting budgetary allocations for the counterpart funds, preparing withdrawal applications and sending them to ADB.

At the town level, sub accounts will be maintained. The funds will be transferred by the PIMU based on the estimated incremental expenses for the quarter to meet salary and other office running expenses of the local units of the PIMU. The local unit of PIMU will render monthly accounts to the PIMU. A summary of disbursement procedure and guidelines, as prescribed in ADB '*Loan Disbursement Handbook*' 2001, for the use of the Executive and implementing agencies is provided in Annex R. The suggested procurement packages for the SII is provided in Annex S.

4.6.6 Implementation of Re-housing Process

Figure 4-12 illustrates a series of steps for implementing the re-housing process.

It is proposed that a Re-housing Commission be set up in each SII town, consisting of the local stakeholders and including the Baladiiyas, Mahalas of the host communities and local representatives of the SCRI. The Commission would be responsible for reviewing the re-housing strategy in light of the existing situation, and assist with the re-housing process as it moves forward.

The early formation of new Mahalas Komitesis/Block Committees (or strengthening and registration of community groups that may already be functioning within the IDP communities living in the schools who are being moved to the new buildings) is essential to ensure the re-housed IDPs can fully benefit from their move, and for the moving process to be implemented successfully.

In many of the fully inhabited schools there exist strong communities. Where possible these "school communities" should be re-housed together in the proposed new apartment buildings.

Throughout the re-housing process, close cooperation between the local SCRI representatives and the Baladiiyas will be essential, as will the involvement of the Mahalas of the host communities in order to minimize any possible social or community conflicts. Collaboration with any existing host Mahalas will also be essential.

The IDP families living in the town will all be aware of the progress of the new structures and arrangements will have to be made for security at the building sites as the structures near the completion stage, to ensure other IDP families outside the target group do not take over the properties. Similarly, at the cleared schools

steps should be put in place to stop other IDP families moving in as the classrooms become vacated.

4.6.7 Management, Maintenance and Operation Considerations

While the IDP families are inhabiting the proposed apartment buildings, responsibility for their management and maintenance will lie with the SCRI. The Mahala Komitesis will be essential in contributing to the success of these efforts. Management of the facilities will not only include ensuring the provision of services to the buildings; cleaning of common areas and external and internal maintenance, but also control of how the buildings and the surrounding areas will be used.

In order to assist in the management of the buildings the SCRI, Baladiiyas and Mahalas will need to draw up and agree on regulations that the inhabitant IDP families must abide by during their occupation of the new housing units. Such regulations will be needed to control the methods and types of materials to be used for internal partitioning, etc., and address the general use that will be permitted in and around the building. They can also be effective in preventing the common practice of extending the enclosed living area onto the balconies of apartments and the construction of additional structures on the roofs of the buildings.

Use of the surrounding areas adjacent to the new buildings will also need to be covered in the regulations and cooperation will be necessary with the Baladiiyas with respect to erection of illegal structures, waste disposal, gardening, and misuse of the areas, among others.

Where it has been possible to provide a building with business incubator and community facilities on the ground floor, the Mahalas will be able to earn some revenue from renting out the business facilities and the community hall for weddings, funerals, etc.. The business facilities would enable the IDPs to pursue businesses that benefit themselves as well as the community at large.

Should such time come when the IDPs can return to their original regions, the buildings can be returned to the Baladiiyas for possible rental as studio apartments, sale as condominiums or even possibly conversion into hotels from which they could earn income.

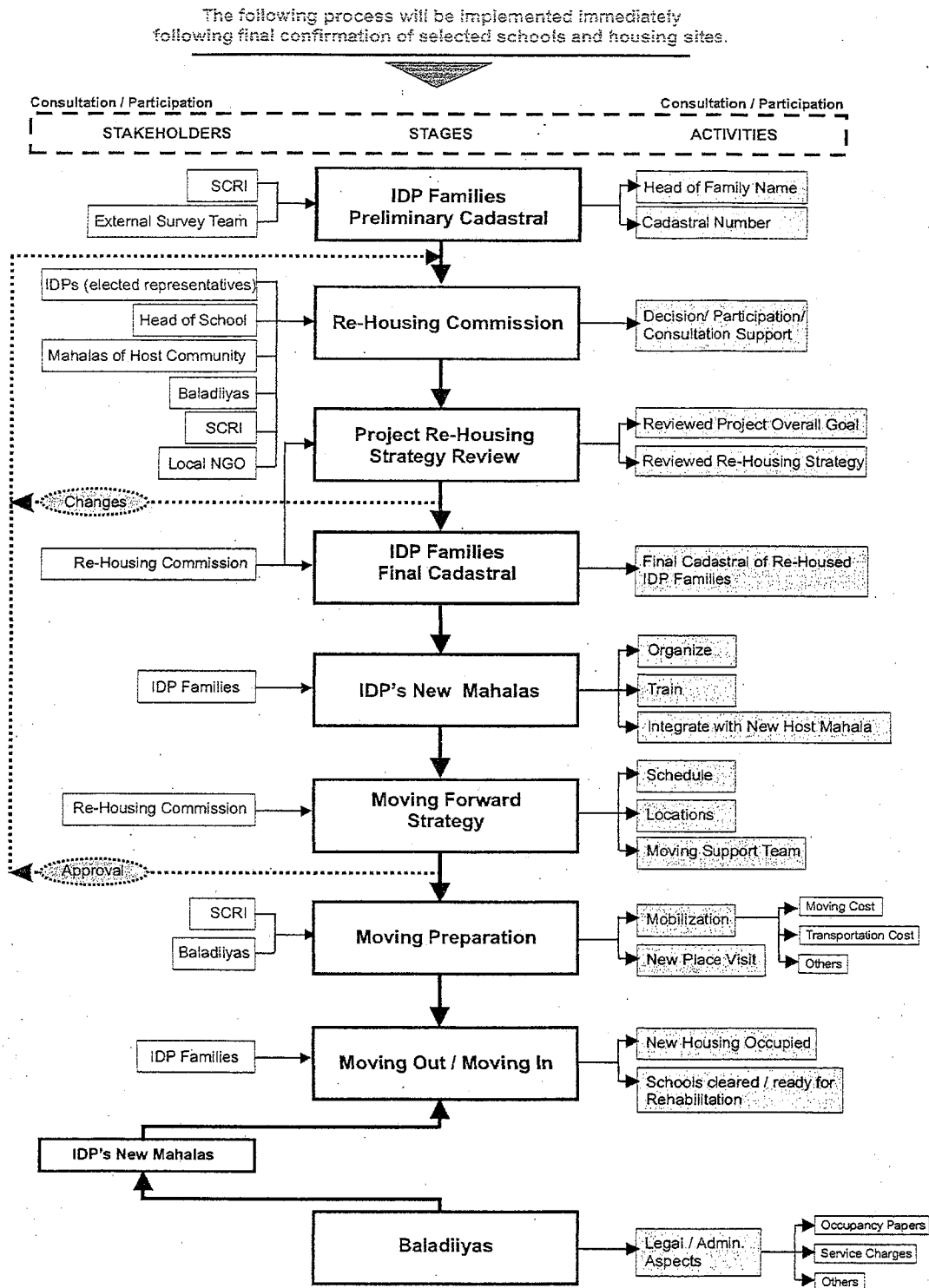
4.7 Capacity Building (CB) for the SII

4.7.1 Aspects of Capacity Building

Capacity building (CB) initiatives related to the Social Infrastructure for IDPs (SII) component, will address several broad areas including social mobilization, strategic planning, budgetary processes, financial management, procurement and SII monitoring. This report section provides information on the capacity building activities that will take place during the life of the SII. During the SII inception period the proposed plan will be verified and more detailed capacity building plans will be prepared to include: identification of trainers; duration and sequencing of training; numbers and specifications for equipment; costs; etc... A preliminary

Re-Housing Process

Figure 4-12



Capacity Building Matrix for the SII is included at the end of this report section (Table 4-23).

The capacity building activities for the SII will encompass three main categories, as outlined below. If any one of the three areas is insufficiently developed, the organization and its people will not be able to function in an efficient and effective manner:

- **Human Resources Development (HRD)**

Following the training cycle, and utilizing basic principals and practices of, adult education, HRD is directed at the individual or groups of individuals to develop their capacity to carry out their job functions in an appropriate manner and towards the achievement of organizational Goals. This activity often takes the form of experiential training in all its modalities (e.g., classroom courses; mentoring; on-the-job training; etc.).

- **Organizational Development (OD)**

OD is directed at the organization or institution to develop its capacity to organize and manage groups of individuals to deliver its mission. This activity can include the development of goals and mission statements, guiding principles, strategic plans, management structures, financial systems, orientation to clients, etc..

- **Infrastructure Development (ID)**

ID refers to the necessary construction and/or equipment required in order for the organization and its people to function successfully.

4.7.2 Executing Agency (EA)

Capacity building for the EA will include infrastructure improvements such as the provision of equipment to the State Committee for Refugees and Internally Displaced Persons (SCRI), both at the headquarters in Baku and in the selected local offices (e.g., office furniture, computers, photocopy machines, and fax machines).

4.7.3 Local Government

The Local Executive Authorities (LEAs) and Baladiiyas will act as support agencies for the SII, although they will not be directly involved as executors or implementers. Local government will be the focus of strong capacity building activities during the future SIRT, as described in Section 5 of this report.

4.7.4 Implementing Agency (IA), Project Implementation and Management Unit (PIMU) and Re-Housing Commission

Although the Social Fund for the Development of IDPs (SFDI) has experience with regard to implementing projects related to relocation of IDPs, as summarized in Annex F, some additional CB will be applied to the agency, such as:

- HRD: Workshops to inform/update management/staff re: ADB requirements, project cycle, monitoring and evaluation requirements, etc.; project management, financial management, procurement, monitoring and evaluation, gender analysis;
- ID: Equipment updating, as required.

It is anticipated that the staff of the PIMU will be seconded and/or recruited by the SFDI. They can receive training in ADB reporting and other requirements from the agency, international consultants assigned to the PIMU and other sources. At the beginning of the SII, training in physical works and regular administrative responsibilities for the PIMU staff will be organised.

Additional CB will be directed towards the Re-Housing Commission that is proposed to oversee the moving of the IDPs from the schools to the new.

4.7.5 Mahalas

The Mahalas will receive training in governance and operation of such community-based organizations, as well as training in management, the operation and maintenance of the new housing and other areas.

Specific CB activities are summarized on Table 4-23, following:

Table 4-23: Capacity Building Matrix –the SII				
Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
A. SFDI/PIMU/Re-Housing Commission				
A1. SII Management	SFDI managers	Local trainers and international specialists	<u>Topics:</u> project cycle, ADB requirements, needs assessment, planning and design, implementation, monitoring and evaluation <u>Timing:</u> at SII start-up <u>Delivery:</u> workshop 2 days; on-the-job follow-up; shadowing PIU staff	3,000
A2. Financial Management	SFDI financial staff	Local and international specialists	<u>Topics:</u> commercial accounting system, annual financial statements, financial projections, budgetary procedures, tax assessment	3,000

Table 4-23: Capacity Building Matrix –the SII

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
A3. Procurement	Staff responsible for procurement	Specialists	<p><u>Timing:</u> within the first year <u>Delivery:</u> workshop 5 days, 8 sessions (1 per town); on-the-job follow-up; shadowing PIU staff</p> <p><u>Topics:</u> ADB requirements, Azerbaijan requirements <u>Timing:</u> at SII start-up <u>Delivery:</u> workshop 2 days, 3 sessions (1 per town); on-the-job follow-up; shadowing PIU staff</p>	3,000
A4. HR Management	Managers and supervisors	International specialists	<p><u>Topics:</u> recruitment, management styles, leadership, motivation, performance review, time management <u>Timing:</u> within first year <u>Delivery:</u> workshop 3 days, 3 sessions (1 per town); on-the-job follow-up; shadowing PIU staff</p>	10,000
A5. Management Information System	MIS staff	MIS specialists	<p><u>Topics:</u> enhancing existing MIS, PPMS, computerizing MIS <u>Timing:</u> ongoing for life of project <u>Delivery:</u> workshop, on-the-job training, technical assistance, shadowing PIU staff</p>	3,000
A6. Computer Training	All as required	Local specialists	<p><u>Topics:</u> software applications <u>Timing:</u> within the first year <u>Delivery:</u> workshop, on-the-job follow-up</p>	5,000

Table 4-23: Capacity Building Matrix –the SII

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
A7. Equipment Provision	All	PIMU	<u>Topics:</u> office furniture, office equipment, computers, software <u>Timing:</u> SII start-up <u>Delivery:</u> procurement and installation	100,000
A8. Vehicle Provision	All	PMU	<u>Topics:</u> vehicles <u>Timing:</u> SII start-up <u>Delivery:</u> procurement	50,000
A9. Community Relations	Re-Housing Comm.	Specialist	<u>Topics:</u> relocation process and logistics; communications; strategic planning for move; allocation of new units; <u>Timing:</u> SII start-up <u>Delivery:</u> workshops in 3 towns; re-housing strategies	2,000
A10. Women's Participation	Community	Community Development Specialist with Women's Groups/NGOs	<u>Topics:</u> common areas, utility supply, waste management, parking areas, apartment extension, operation and maintenance <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 2 days, on-the-job training	5,000

B. Mahalas				
B1. Mahala Operation	Committee members	Local and International social and community development specialists from PMU and PIU , local specialists	<u>Topics:</u> community mobilization, public education, operation of organization, establishing relationships, member involvement, relationship with Baladiiyas and LEAs <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 3 days, on-the-job training	3,000
B2. Project Management	Committee members	Local trainers and Baladiiya/PIMU staff	<u>Topics:</u> Project cycle, ADB requirements, needs assessment, planning and design, implementation, monitoring and evaluation, financial management <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 3 days, on-the-job training for Mahalas re: SII sites	3,000
B3. Operating a new Mahala	Community members	Local and International social and community development specialists from PMU and PIU , local specialists	<u>Topics:</u> community mobilization, public education, operation of organization, establishing relationships, member involvement, relationship to Baladiiyas and LEA <u>Timing:</u> ongoing throughout life of project for SII site Mahalas <u>Delivery:</u> workshops 3 days, on-the-job training	3,000
B4. Managing and maintaining the New Housing	Committee members	PMU/PIU staff	<u>Topics:</u> common areas, utility supply, waste management, parking areas, apartment extension, operation and maintenance <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 2 days, on-the-job training	3,000
B5. Women's Participation	Community Members	Community Development	<u>Timing:</u> ongoing throughout life of project	

		Specialist	<u>Delivery:</u> workshops, technical assistance	
C. Other	To be determined	To be determined	To be determined	4,000

5.0 Overview of Social Infrastructure for Regional Towns (SIRT)

5.1 SIRT Description and Rationale

The SIRT, which proposes to support up to eight regional towns including Mingachevir, Barda and Sumgayit, supports the GoAZ's policies of decentralization and its focus on development of its economic regions. It will promote the renewed health of RTs through the intended substantial investment in RT strategic planning, in major social infrastructure, in RT capacity-building and in provision of a facility to stimulate social infrastructure provision through a community-driven "Local Initiatives Facility". The SIRT fills a gap by virtue of its emphasis on Regional Towns. As Sections 2 and 3 of this report have described, much of the planning and infrastructural investment-related emphases have been on the capital city of Baku. The substantial investment in RT infrastructure should help to create more favourable infrastructural and institutional conditions for private sector investment in RTs through its investment and capacity-building activities, thereby helping to resuscitate and renew areas that have been hit hard by conflict and by the difficult transition to a market economy.

Design of the SIRT will be the primary focus of an upcoming, separately contracted, phase of the PPTA. Its intended components, as currently constituted include the following:

- **City/Regional Town Development Strategies (CDS):** The CDS will include identification of up to eight regional towns and development of community plans for these. Detailed long-range strategies and urban plans will be prepared for the towns, including identification of key infrastructural needs and feasibility studies for priority projects. A highly participatory approach will be employed;
- **Social Infrastructure Investments:** A number of infrastructural works identified as having highest priority in each of the eight RTs will be implemented. Such works may fall under several different sub-project types, including solid waste management, road improvements, drainage rehabilitation, construction of community centres, elders' and youths' facilities, etc.;
- **Institutional Arrangements for the SIRT:** This component will describe potentially involved institutions (e.g., executing and implementing agencies, advisory bodies and community groups) through which the SIRT will be implemented and the management processes that need to be followed;

These activities are discussed below, while capacity building related to the SIRT is discussed in Section 7.

5.2 Participation in the SIRT: Recommended Criteria for Selection of Regional Towns (RTs)

While it is recommended that the three RTs selected under the SII be included in the SIRT in order to gain synergies with the SII, the SIRT envisages participation

of up to eight RTs. An important task remains to select up to five additional RTs for participation in the SIRT. A preliminary set of evaluation criteria which could be used to select the additional five RTs is provide below as a basis for future discussion and refinement:

- Extent of unemployment and difficulty facing the local population, with an important aim of the SIRT being to contribute to poverty alleviation through improved social infrastructure;
- Expressed commitment and support for the SIRT by national and local governments (baladiyya and LEA);
- Partnerships, such that the SIRT is conceived by the local counterparts as a participatory process involving local stakeholders including both the private sector and community organizations such that strong local buy-in is inherent;
- Potential for/local contribution to co-financing, whereby RTs are able to offer a contribution to increase the overall value-added, and local ownership of the project;
- Institutional capacity at local level, whereby RTs have relatively well established local self-government, LEA and other (NGO/CBO) capacity to contribute;
- Presence of mixed communities that enable the SIRT to benefit local community members, including IDPs and other vulnerable groups;
- Urgency of the need for upgrading of social infrastructure/services/facilities;
- Existence of social cohesion/social capital, associated, among others, with the level of formation of NGOs, CBOs, mahala komitesis, etc;
- Links to potential add-on investments such that the prospects for investment follow-up for implementation are high;
- Links with other development initiatives to create a critical mass of positive change. In this regard, there could be a 'multiplier effect' associated with the linking of social infrastructure improvements with the work of other agencies;
- Strengthening of linkages between participating towns, that is, investments create improved conditions for economic development synergies/other types of value-added between RTs;
- Regional balance that enables resources to be allocated in a way that ensures reasonable balance of activities across the regions;
- Activity balance that sees resources allocated in such a way that an investment in one type of infrastructural improvement creates a synergy with another type of activity.

It is recommended that, paralleling a process followed for the SII, a rapid participatory assessment be undertaken, utilizing a finalized set of criteria, to select up to five additional RTs. These should include the two additional RTs that are the subject of the Cities Alliance initiative (Sheki, Ganja), as well as some RTs in the south (e.g. Bilasavur, Sabirabad, Saatly, Imisli). The social infrastructure upgrading being undertaken in certain RTs in the context of BTC pipeline construction should be considered, on the one hand, for the possibilities for synergies versus, on the other hand, the desire to avoid duplication of effort. See Annex B for baseline information on RTs and their socio-economic characteristics.

5.3 City/Regional Town Development Strategies (CDS)

Building on the results of the Cities Alliance SIRT (see Section 3), this component involves the preparation of detailed long-range strategies and urban development plans for participating RTs, including identification of key infrastructural needs and feasibility studies for priority projects.

This planning component will need to take into account the range of possible scenarios (e.g., return of IDPs to their homes versus no return; continued high out-migration from RTs versus lower levels of out-migration; ability of improved social infrastructure to improve conditions for private sector investment and economic development; ability of other initiatives, such as AZRIP and ADB Micro and Rural Finance Project to stimulate urban renewal based on the resuscitation of the rural hinterland, etc.).

The identification of key infrastructural priorities will need to be undertaken utilizing a highly participatory rapid appraisal methodology that involves national, regional and local levels of government, donor and humanitarian organizations, national NGOs and local CBOs (e.g., Mahala Komitesi) etc. The private sector will be a particularly important stakeholder to include in discussions regarding priorities, to identify the infrastructural barriers to domestic and foreign direct investment (FDI).

The exact components and parameters of this Component will be developed in the next Phase of the PPTA.

5.4 Social Infrastructure Investments

This component will fund implementation of the high-priority infrastructural needs identified through a needs assessment (see Section 5.3 above). Such needs may fall under several different sub-project types, including solid waste management, road improvements, drainage rehabilitation, construction of community centres, elders' and youths' facilities, etc..

5.5 Institutional Structure and Implementation Arrangements

5.5.1 The Institutional Context in Review

As described in Section 3.5 of this report, the operating environment at the local governmental level into which the SIRT will be implemented carries with it a number of issues:

- Inadequacy of municipal financial resources;
- A legislatively ambiguous mandate regarding LEA and municipal/Baladiya responsibilities;
- Unilateral devolution of responsibilities to municipalities;
- Barriers to municipal autonomy;
- Municipalities' "non-governmental" status;
- Unfavourable conditions with municipal government for long-term planning;
- Inadequate human resource capacity;
- Lack of budgetary oversight;
- Lack of a national association;
- Weak civil society;
- Impediments to NGO formation.

While resolution of many of these issues would require constitutional/legal amendments, and may be beyond the scope of the SIRT, some may be able to be addressed through the SIRT and are discussed in Section 5.6. It is recommended that the workability of the following institutional framework for the SIRT be more carefully scrutinized in light of these issues, some of which may have an impact on the shaping of SIRT projects (e.g. to ensure that there is no overlap/conflict regarding jurisdiction between the LEA and Baladiya); sustainability of projects in view of the fiscal difficulties facing Baladiyas, etc.)

5.5.2 Preliminary Recommendations Regarding an Institutional Structure⁶²

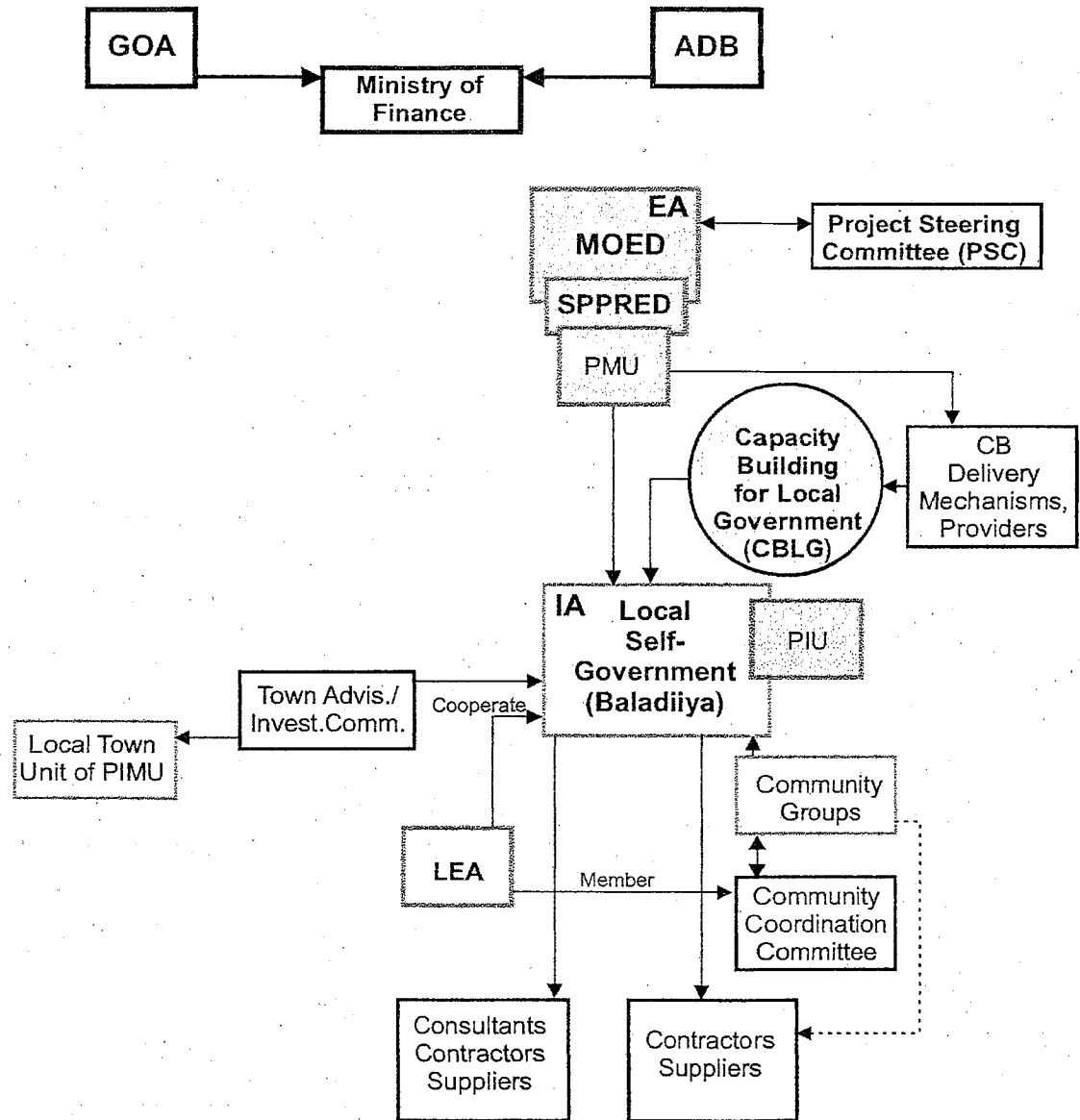
The following proposed institutional structure for the SIRT must be considered as preliminary. Much more work on the ideal institutional framework remains to be done under a pending second phase of this PPTA that will encompass up to five additional towns. Thus, the following recommendations for the SIRT are based on the assessment to date of local governmental/non-governmental capacity and assumptions regarding capacity-building that will be undertaken (see Section 5.5):

- While the Executing Agency (EA) for "Social Infrastructure for IDPs" (SII) will be the State Committee for Refugees and IDPs (SCRI - See Section 4), the logical Executing Agency for the SIRT is the **Ministry of Economic Development (MOED)** (see Figure 5-1). MOED was selected as the EA because of its roles in implementing the State Programme on Social and Economic Development of the Regions (2004-2008) (SPSEDR), and the State Programme on Poverty Reduction and Economic Development (SPPRED). As noted in Section 2, the SPSEDR recognizes individual needs of the regions as well as the importance of encouraging development outside of Baku to address the current imbalance in economic activity. The SPSEDR places particular emphasis on: improvement of infrastructure and utility service supply (water,

A discussion of procurement, auditing, accounting, disbursement and land acquisition/resettlement-related recommendations that may be helpful to the SIRT can be found in the SII-related Section 6.

**Proposed Project
Implementation Structure:
SIRT**

Figure 5-1



sanitation, gas, electricity, roads) to regions; construction of social buildings; harmonization of legislation and standards to enable membership in reputable international organisations and economic unions; establishment of a land cadastre; streamlining procedures for execution of property use and leasing rights; increasing baladiyyas' roles in managing infrastructure and utility services; and expanding the public-private dialogue. These emphases coincide with many of the elements of a City Development Strategy (CDS), which is a priority in many towns as discussed further below, and one being undertaken by ADB and UNDP in a series of towns including Mingechevir through their Cities Alliance (CA) Project. SPPRED houses the Project Management Unit (PMU) responsible for implementing the Cities Alliance programme which will begin in July 2005, and will house the PMU for this Project;

- An Inter-Ministerial **Project Steering Committee (PSC)** will be established at MOED with members drawn from Ministry of Finance, Ministry of Justice, and Ministry of Education and State Committee for Refugees and IDPs. A representative from ADB will participate in the PSC meeting as observer. The Minister of MOED will chair the PSC. The PSC will meet within 2 months of the finalization of the loan. Thereafter, it will meet at least once a year to provide overall coordination and guidance, or whenever an urgent issue requiring inter-ministerial coordination arises;
- A **Project Management Unit (PMU)** will be set up under the MOED within SPPRED. The PMU, led by a Project Director (PD) acceptable to the ADB, will be staffed with a complement of professional and technical personnel. The PMU will be assisted by the management, design and supervision (MDS) consultants during the entire period of implementation. The PMU will:
 - coordinate with other agencies concerned;
 - carry out general project management and the supervision of detailed engineering design, procurement, construction supervision;
 - prepare an overall implementation plan and annual budget;
 - procure contractors for implementation of the physical works maintain financial accounts;
 - prepare quarterly progress reports, and a final project completion report;
 - organize monitoring and evaluation activities and activities under the social and community awareness programmes.

The PMU will have an accounting section to deal with procedural aspects, to record financial transactions and prepare liquidation statements and replenishment requests. At the beginning of the Project, training regarding infrastructural works and regular administrative responsibilities for the PMU staff will be organised. Procurement contracts for infrastructural works will be centralized at the PMU:

- A **Project Implementation Unit (PIU)** will be established at the RT level, headed by the Mayor of the Baladiyyas/elected municipal council. Work will be carried out headed by a full-time, experienced senior technical person. The number of PIU staff will range from 7-8 on the basis of the volume of work. The responsibilities of the PIU will include:

- the carrying out of detailed surveys, investigations and engineering designs of the individual city components;
 - tendering, evaluation of bids and awarding of contracts;;
 - contract administration, supervision and quality control;
 - monitoring of work carried out by the contractors;
 - certification of payments;
 - conducting of public awareness campaigns and participation programs;
 - BME studies;
 - environmental assessment;
 - compliance with loan covenants;
 - preparation of monthly reports.
- Performance of the PIU will be monitored and guided by a **Town Advisory Committee (TAC)** chaired by each city mayor. The committee members will include representation from the LEA, Baladiya (two elected municipal counselors including one woman), and three citizens at large including private-sector business representation. The Town Advisory Committee will meet regularly, at least once every three months, to review progress and sort out local issues and policy matters.

A potential PMU and PIU staffing regimen is set out in Table 5-1, below:

Table 5-1: Staffing Requirements for PMU and PIUs							
No.	Position	Baku	Barda	Mingechevir	Sumgayit	Regional Towns (5)	Total
1	Project Manager (PM)	1					1
2	Project Implementation Officer		1	1	1	5	8
3	Accounts Officer	1	1	1	1	5	9
4	Procurement Officer	2					2
5	Social / Community Development Officer	1					1
6	Local Investment Fund Coordinator	1	1	1	1	5	9
	Sub total	6	3	3	3	15	30
	Support staff						
7	Accountant	2	1	1	1	5	10
8	Administrative Officer	1	1	1	1	5	9
9	Local Initiative Fund coordinator	1	1	1	1	5	9
10	Office Assistant	3	1	1	2	5	12
	Sub total	7	4	4	5	20	40
	Total	13	7	7	8	35	70
	Implementation Period (# of Years)	5	5	5	5	5	5
	Allocated Person months	780	420	420	480	2100	4200

- With regard to consulting services, *one option* is that the GoAZ select and engage two international consulting firms in association with domestic consultants to assist the PIMU under SCRI and EA under MOED for project implementation and management in accordance with ADB's *Guidelines on the Use of Consultants by the ADB and its Borrowers* and other arrangements satisfactory to ADB for the engagement of domestic consultants. Under this scenario, two international consulting firms, acting as the Management, Design and Supervision (MDS) consultants, would be recruited using ADB's Quality and Cost-Based Selection (QCBS) method. SCRI would recruit the MDS consultants for the SII, and MOED would recruit the MDS consultants for the SIRT. The MDS consultants would provide overall project management support; prepare detailed engineering designs, cost estimates, procurement and tender documents; financial management, accounting, reporting support. They would also regularly supervise, monitor progress and quality of works, and oversee resettlement actions. The team leader (in his absence, the deputy team leader) would have overall responsibility for the management of consulting services;

The MDS consultancy, *including the LIF and all capacity building*, is calculated on a preliminary basis to require approximately 50 person-months of international and 220 person-months of domestic inputs (Table 5-2). These inputs are subject to revision as details of the SIRT are finalized. The estimated consultants' costs are in Annex O.

Table 5-2: Consulting Requirements: SIRT, LIF, CBLG	
Contents	Person months
International Specialists	
Team Leader / Municipal Engineer	30
Municipal Engineers (#) TBD	10
Construction Supervision (QC) Specialist	6
Social and Community Development Specialist	4
sub-total	50
Local Specialists	
Team Leader / Municipal Engineer	54
Solid Waste Mgt. Specialist.	18
Roads/Drainage	12
Procurement Specialist	30
Construction Supervision (QC)	42
Social/Community Development	9
Financial Management Specialist	9
Capacity Building Specialist	12
Environmental Specialist	6
Performance Management Specialist	6
Community Driven Development Specialist	12
To be decided	10
sub-total	220

Total	270
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A question has been raised by the ADB regarding the perceived overly high level of international, as opposed to local, consulting expertise. A recommended task under the pending second PPTA contract will be to re-examine the international and local levels of consulting required to undertake the types of tasks ultimately defined under the SIRT.

6.0 Local Initiatives Facility (LIF)

The proposed structure of the LIF as described in this section and elaborated in Annex M, should be viewed as a preliminary model only, to be refined and changed in an upcoming PPTA phase of work. This early model may be too centralized and require substantive alteration particularly as regards the areas of project management and accountability/monitoring and evaluation measures. Thus, at the end of Section 6 suggestions regarding some alternative management models worthy of consideration are described, and recommendations provided, regarding the direction of future work to elaborate the LIF.

6.1 LIF Overview

The purpose of the Local Initiatives Facility (LIF) is to enable community groups (CGs) within eligible regional towns (RTs), to select and implement the high-priority social infrastructure initiatives that they themselves have selected through a demand- and community-driven process to improve their well-being. Amelioration of basic social infrastructure needs will raise living standards and alleviate hardship, thereby enabling CG beneficiaries to have increased energy to devote to other productive social and economic activities. Moreover, the building of CG capacity, which is a fundamental and necessary activity within the LIF (see Section 7), will provide tools to enable CGs to undertake other positive community initiatives well beyond the duration of the LIF. In addition to strengthening CGs, an underlying aim of the LIF is to provide opportunities for development of productive partnerships and support between CGs and their municipal representatives.

Extensive social assessment consultations with diverse stakeholders during project preparation yielded a range of types of common, high-priority social infrastructure needs that are likely to be presented by CGs for LIF funding. The typology of these likely "sub-projects" is outlined later in this section and is described in detail in the LIF Operations Manual – OM (Annex M). Based on assumptions regarding average costs of such sub-projects (\$10,000-\$15,000) it is envisaged that, over a five-year period, the LIF, assuming an allocation of \$3 million and the participation of three RTs⁶³, will be able to fund between 40 and 60 sub-projects per participating RT. Criteria defining sub-projects that are considered ineligible for funding under the LIF have been defined and are provided in the OM.

The LIF delimits "Community Groups" eligible for LIF participation in a broad manner. They must:

- Be geographically located within the administrative boundaries of the RT;
- Have a leadership structure and community members located within the RT; or,
- If not yet organized, be willing to undergo organizational support offered under LIF capacity-building (see Section 7 and Annex M);
- Be registered as a local CBO/NGO with the Ministry of Justice and/or the RT Baladiyya (to enable receipt of funds); or,

⁶³ It is assumed that the \$3 million amount will be expanded if, under the SIRT, up to eight RTs are to participate in the LIF.

- If not registered, then successfully find alternative vehicles through which to have funds channelled, e.g. by registering as block committees with their municipalities or entrusting a legal entity with the receipt of funds (See CPIC/OM);
- Not have a political purpose or charter;
- Not function for profit or for economic gain.

This broad definition is intended to encompass those local CGs that share a common and positive social development purpose, and that are already organized and active, or that are willing to become so. Eligibility is open to groups of residents, whether IDP, local or mixed, as well as the widest range of CBOs, such as women's, parents', elders', youth, handicapped groups, etc. It includes residents' block and cluster associations, many of which are organizing themselves to try to cope with their housing-related social infrastructure duties that used to be met by the State-run 'zheks' (municipal public works department), which functioned relatively well during pre-Independence times, but which have since become unable, as a result of a lack of funding, to fulfil residents' needs.

In addition to capacity building, which is discussed in Section 7 of this report, there are two main parts of the LIF, each of which is summarized below and discussed in more detail later, in Sections 6-3 and 6-4:

Part A – Sub-Project Funding: This Part will provide funding for social infrastructure sub-projects identified as needed by community groups in participating regional towns. While sub-projects will generally be of a magnitude under \$25,000 the OM defines circumstances under which exceptions to this limit may be waived. In order for sub-projects to be approved and implemented, participating CGs will be required to fulfil the steps and requirements set out in the seven "steps" of the Community Project Implementation Cycle (CPIC). These requirements, among others, include a combined cash/in kind contribution by the members of the CG, in order to build community ownership and commitment. Because the capacity of CGs to provide cash contributions varies greatly, and because an underlying aim of the LIF is to improve the welfare of the most vulnerable, the CPIC is structured such that cash contributions should be within the reach of even the poorest CGs. The LIF has been designed to be highly participatory. The CPIC process will support CGs to take ownership of the entire project implementation cycle, spanning sub-project identification, detailed proposal development, contracting, sub-project implementation, monitoring, evaluation, and ultimately, sub-project operation and maintenance. Decisions taken by communities will be appraised according to specific, highly transparent social, economic, environmental, technical, and institutional criteria set out in the OM. Approved sub-projects will be required to conform to ADB safeguard policies. Funding for this Part will come from an LIF-specific budgetary allocation of \$ 4 million;

Part B - Project Management: This Part covering the administrative staff, including an LIF Project Coordinator housed in the Project Management Unit (PMU), and a Community-Driven Development [CDD]/capacity-building and training specialist [CBT]; and a combined Monitoring and Evaluation and MIS specialist, preferably with both computer and people skills) will be funded

under the incremental administration cost budget for the PMU. It is assumed that engineering, financial, auditing, environmental, and other specialists that are part of the larger project team will be available in advisory/oversight capacities during various Steps of the CPIC or that services will be hired on a temporary basis as needed (see OM). These roles are discussed in greater detail in Section 6.4, Institutional Arrangements. LIF staff will be responsible for overall component management; proposal appraisal and recommendation for funding; supervision of the contracted training/capacity-building team; sub-project recommendations/ approvals, and for ensuring transparency and conformity of the CPIC process with procedures set out in the OM and ADB policies and safeguards. A "Community Coordination Committee" (CCC) consisting of governmental and non-governmental representatives from each RT will ensure that the process complies with LIF procedures as set out in the OM. This Part will be funded through the implementation assistance of the SIRT.

6.2 LIF Operating Principles

The following operating principles have been developed to guide the design and implementation of the LIF:

- **Community-driven sub-project selection and implementation:** Sub-projects are identified by the local CG's utilizing open and highly participatory processes. CGs assume the responsibilities that go along with the benefits of LIF funding, including: a) creation of a leadership structure; b) obtaining of legal status sufficient to receive funds and/or a suitable alternative; c) establishment of financial management and reporting systems; d) raising of community contributions; e) conformity with LIF procedures and contractual elements; e) mandatory participation in capacity-building and training.
- **Inclusion:** CGs participating in the LIF follow a decision-making process that ideally involves all, and does not exclude any, CG members. Demonstrated efforts are made to both include in decision-making, and benefit the widest spectrum of beneficiaries, including women, youth, elders, and the most vulnerable. At the same time, contributions by CG members to the CG sub-project are inclusive and equitable, taking into account, ability to pay, as evaluated and determined by the CGs themselves. In order to ensure widespread rather than limited ownership, sub-project approval will require that a minimum of 60% of members commit to their allocated contribution, and proposals that demonstrate a higher proportion of the community willing to pay will be given a higher score. In this way, the danger of a sub-project being "owned" by a few people is avoided.
- **Gender balance:** A gender balance in the formation of CGs responsible for sub-project selection and implementation, while in principle deemed advantageous given the value-added that women can bring to management, and the great benefits they will receive from social infrastructure improvements, should not outweigh the aim of having the most effective and representative management as identified by the CG as a whole;

- **Poverty reduction:** A fundamental *raison d'être* of the LIF is to alleviate the suffering of some of the most vulnerable groups in Azerbaijan's regional towns. Sub-project proposals should demonstrate a positive direct/indirect impact on poverty reduction;
- **Ownership:** By requiring a community in-kind and cash contribution and entrusting them with project prioritization, design and implementation, the LIF gives CG stakeholders a direct stake in the success of their sub-project;
- **Participatory 'Learning by Doing':** The project implementation cycle enables CG participants to fulfil the required tasks utilizing a 'learning by doing' approach that strengthens participants' skills and abilities and that enables them to assume responsibility and management of the CG sub-project. In this regard, a major element of the LIF is -building and training (see Section 7);
- **Participatory Self-Monitoring:** CGs are provided with the tools to oversee their own sub-project, and are required to report on project progress, budget, timeliness and conformity with LIF requirements. This process represents a built-in incentive for the CG to "police" itself in order to ensure project implementation;
- **Accountability:** Clear and transparent requirements, contained in the LIF Operation Manual and communicated through training to CG participants, establish procedures and consequences in the event that issues relating to compliance, transparency, budget overruns, non-participatory decision-making, etc., arise;
- **Transparency:** The CG is aware of every aspect of the decision-making process. Successive levels of, and responsibility for, monitoring (CG; LIF staff; CCC) ensure that decisions are taken in an open manner and that clearly defined and severe consequences are established for a failure of transparency;
- **Sustainability:** Prior to sub-project implementation the CG prepares an Operations and Maintenance Plan including activities, finances and sources of funding for the CG sub-project, which is carefully reviewed as part of CP appraisal and approval by LIF staff, the CCC/TIC and LIF Coordinator;
- **Flexibility:** The LIF recognizes different circumstances and priorities from one regional town to another (e.g. a focus in one on industry and in another, on agriculture), and from one CG to another (a highly poor and vulnerable CG versus a more affluent one), and creates conditions where such differences can be accommodated during selection and implementation. LIF funding allocations to RTs will also be flexible, in terms, among others, of eligible sub-projects, in terms of community contribution and in terms of annual allocations of funds to RTs.
- **Simplicity:** To support CG participation and success, LIF rules and processes are sufficiently simple and straightforward to be understood and

implementable. In addition, the early sub-project selection Steps seek to minimize/screen out unduly difficult and complex projects (e.g. those risking large environmental or social/resettlement impacts).

6.3 Part A: LIF Sub-Project Funding

One of the aims of the social needs assessment undertaken in three of the participating regional towns (Barda, Mingchevir and Sumgayit) during project preparation was to identify the extent and types of community groups that are active, and their perceived priority needs. The needs of additional RTs participating in the LIF will be undertaken in a subsequent phase of this PPTA.

6.3.1 Community Groups

In each of the three communities, it was evident both that some CGs have formed are very active, and that there is still a considerable demand and need for CG organization. The groups that have formed have often be assisted by government and as a result of the initiatives of many international NGOs and donor agencies as well as the locally based NGOs and CBOs that have been created out of this support. The following types of groups were found to exist in each of the following towns include, but are not limited to the following:

1. Barda:

- block communities (19 out of a possible 54 formed thus far);
- "clusters" of block communities;
- Elders' associations;
- women's associations;
- Youth association;
- IDP community organizations.

2. Mingchevir:

- block communities and umbrella organizations representing the block communities;
- veterans' association;
- Afghanistan veterans;
- Chernobyl society;
- Invalids society;
- Women's society;
- Parents' organizations;
- Elders' society;
- Youth association.
- IDP community organizations (i.e. those not registered as block associations).

3. Sumgayit:

- block communities (19 out of a possible 54 formed thus far);
- elders' associations;
- women's associations;

- Youth associations;
- IDP communities;

Findings of the PPTA indicate an adequate to strong base of existing CGs on which to build the LIF.

6.3.2 Typology of LIF Sub-Projects

Through this needs assessment the following typology of sub-projects emerged from discussions about priority needs of CGs. Some of the sub-projects may be determined to be ineligible under the LIF – see **Section 6.3.3**:

- **Improvement of Residential Living Conditions:** This need is widespread and has arisen both from the occupation since the 1988-1994 period by IDPs of temporary quarters (many of them unintended for residential use and in extremely deteriorating condition) and from the deterioration of aging, and poorly maintained residents' apartment blocks which have suffered since the loss/deterioration of services previously provided under Soviet times, by the State's 'Zhek's'. The types of improvements under this category include:
 - **Open space enhancement:** Housed in cramped quarters, both IDPs and resident populations routinely cited the need for improved use of open spaces around their buildings. These common outdoor areas have fallen into serious states of disrepair, having little in the way of recreational grounds/facilities, seating, or vegetation;
 - **Building rehabilitation/reconstruction:** For both IDPs and local residents, needs include structural improvements to common areas (roofs, hallways; lighting; painting, etc.) and, in the case of IDPs, upgrading of communal kitchens and sanitary facilities;
 - **Community centres/meeting space:** Most frequently cited needs were: apartment block meeting rooms to hold events and funeral; facilities to accommodate the growing population of 'lonely' elders; facilities for youth's activities; Some overlap with more detailed investment needs described below;
 - **Utilities:** Needs range from energy/gas supply system upgrading, to water supply improvements.
- **Road repair:** Both residents (IDPs and residents) and elected municipal (Baladiya) representatives identified the need for road repairs, either around apartment blocks or within the RTs generally;
- **Institutional Facilities' Upgrading/Construction:** For both local residents and IDPs, one of the most cited needs has been improvement to the supply and condition of public institutions serving the community: The main types of needs were:

- **Elders' centres:** There is a growing population of elders in the RTs, many of them without support of their children many of whom have moved away or who are unable, financially, to care for their parents. A widely expressed need in all of the RTs was day centres for elders and/or elders' residences/nursing homes, providing medical services;
 - **Youth centres:** Currently, youth are very limited in their opportunities for recreation and require centres for youth activities (sports; computers, socializing, etc.);
 - **Women's centres:** Some women's CBOs noted the need for women's gathering centres and shelters;
 - **Centres for Handicapped:** As a result of the conflicts of the 1980s and 1990s, many IDPs and local residents were maimed and have limited facilities to care for them. In addition, over 200 families in Mingchevir have family members who were affected by Chernobyl, and who require a higher level of care than can currently be provided;
 - **Medical centres:** Some stakeholders emphasized a need for more medical centres, although most of these were IDPs living in tent camps, etc., and who are going to be relocated. This was not a largely noted need of the general or IDP populations in the RTs.
- **Supplies:** Many stakeholders indicated the need for school and medical supplies;
 - **Irrigation/Drainage Rehabilitation:** In Barda, whose economy has traditionally been agriculturally focused, there are "clusters" of community block associations (Mahala Komitesis), some of whose membership totals as high as 30,000, who have identified the need for upgrading of drainage canals, in order to resolve the problem of salinization of soils, and to provide water for irrigation. Resuscitation of agriculture is seen as one major step towards stimulating agri-business in urban Barda, where a high level of unemployment requires attention;
 - **Market Stalls:** One of the barriers to small business formation is the lack of market stalls. Some CG members noted the need/desire for market stalls which could be located in outdoor common areas of residential areas;
 - **Relocation of IDPs Living in Schools and Refurbishment of Schools:** This need was commonly mentioned by both local and IDP populations. Given the considerable costs associated with this social infrastructure need, it is likely beyond the capacity of the LIF and, in any event, is the focus of the Social Infrastructure for IDPs (SII);

The typology of sub-projects above reflects social assessment findings. Other types of sub-projects are not excluded and, in fact, will undoubtedly arise over the course of the LIF. As cited below, criteria will be developed to determine which are eligible.

6.3.3 Sub-Project Eligibility Criteria

As described in the Operations Manual and as reflected in the Operating Principles described earlier, one goal of the LIF is to be sufficiently flexible to be in tune with stakeholder needs, which may change over the five-year life of the LIF. Over the course of the LIF, CG needs and priorities may include additions to the typology of sub-projects identified to date. Thus, eligibility criteria need to provide room for new types of proposals.

Other LIF Operating Principles are inclusion and empowerment. Some sub-projects (e.g. provision of equipment/medical supplies, as listed above) are not viewed as satisfying LIF principles of inclusion and empowerment - of stimulating a cooperative long-term venture towards sub-project implementation - and are not considered to be eligible. Moreover, if sub-projects such as medical centres require equipment, funding for this would not come from the LIF. Sub-project approval would require that the Operation and Maintenance Plan demonstrate where funding would come from to ensure long-term sustainability. Environmental and social safeguard issues also require that certain types of sub-projects be excluded.

Both the World Bank, through its Azerbaijan Rural Investment Programme – AzRIP) and the ADB through its Micro and Rural Finance Development Project, are providing financing to stimulate economic development in the rural areas. In order to ensure that the LIF does not overlap with or duplicate such efforts, and because it is not the purpose of the LIF to fund private productive investments, the LIF excludes for-profit ventures.

Thus, as a result of the need to create clear and transparent guidelines for CGs regarding the types of sub-projects they forward for funding while still allowing for creativity and flexibility, sub-projects considered *ineligible* for funding are defined in the OM (e.g. potentially dangerous/damaging investments such as weapons; asbestos; micro-financing/economic development initiatives; purchase of, or compensation for land [to avoid resettlement issues]; sub-projects that already have committed funding from other sources; civil works for government or religious purposes; international travel, etc.)

6.3.4 Minimum/Maximum Sub-Project Sizes

Average sub-project costs for eligible sub-projects listed above have been estimated. In order to maintain administrative costs within reasonable bounds a minimum project size limit is deemed to be required and has been set at \$5,000, while a general maximum of \$25,000 has also been established. Given the process set out in the CPIC, projects of less than \$5,000 would be highly costly to oversee. If sub-projects are allowed to be over \$25,000, the risk is that beneficiaries would be limited to a few CGs and that the LIF would have limited overall community impact. Nevertheless, the Operations Manual sets out special conditions and transparent procedures under which sub-projects exceeding \$25,000 could be approved after the first year (e.g. where a “cluster” of block associations proposes a sub-project that would benefit a larger population).

Such exceptions would have to be supported by an inclusive meeting of the Community Coordination Committee and the Project Management Unit.

6.3.5 Demand Management and the Mix of Sub-Projects

A process has been developed within the CPIC to ensure that an annual cycle of sub-project submissions does not unduly exceed annual LIF funding allocations, and that CGs do not expend any unwarranted effort on initiatives that are not eligible/likely to be approved.

One of the philosophical issues regarding the LIF is whether a mix of typologies is required to be funded in the event that only a limited type of CGs submit the same types of proposals (e.g. submissions are only from Mahala Komitesis for building rehabilitation, and none are received from women's, youth, elders', handicapped, etc., organizations). To maintain the Operating Principle of projects being demand- and community-driven, the LIF should not control or manage the mix of sub-projects that are approved. Rather, pro-active measures should be undertaken to ensure the fullest awareness of the diverse range of CGs regarding the LIF and then enable CGs to decide for themselves what their priorities are.

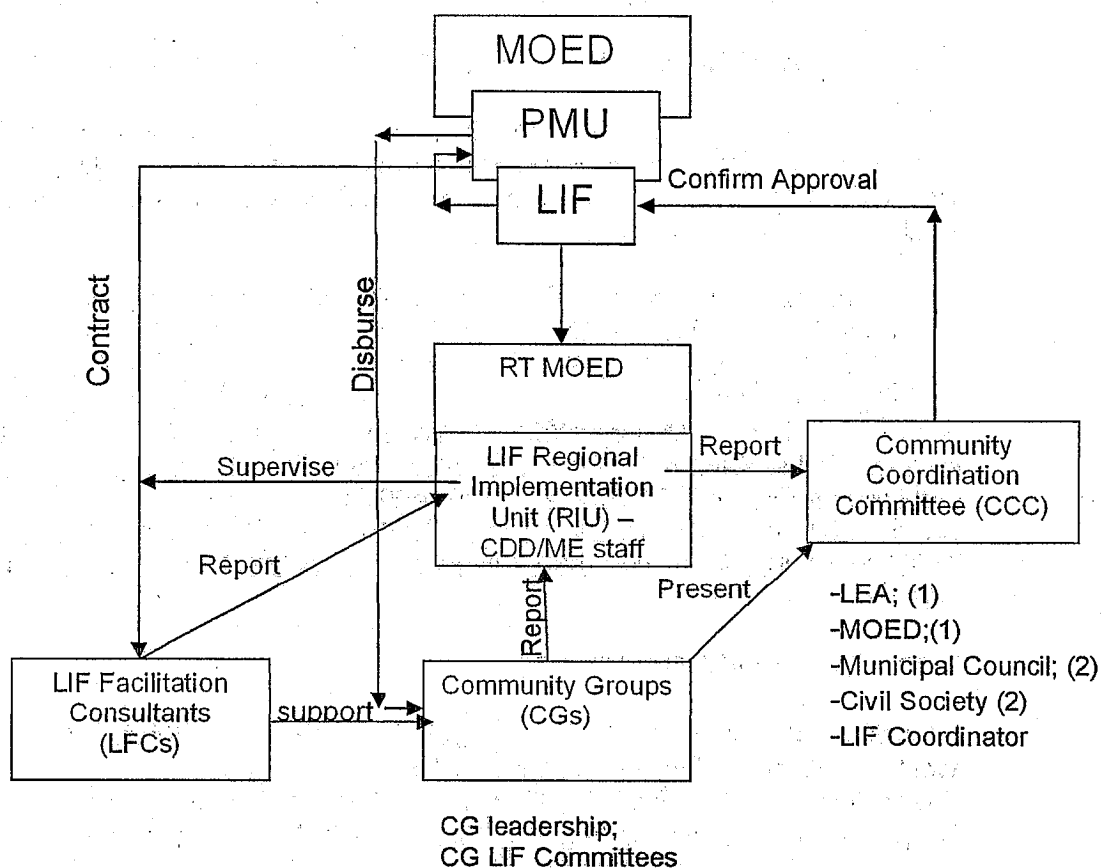
6.3.6 Community Contribution

A number of options used in other community-driven social infrastructure projects were examined. Some require that 10% of the total project value be provided by the community, 50% of it being in cash. In other cases a higher value (20%) must be provided, but a lower (e.g. 3%-5%) in cash. In still other cases, there is no specified amount, and proposals are evaluated, among others, on the contribution that the CG commits to provide.

The social assessment found that many of the most vulnerable who are in most need of LIF support live below the poverty line. There are also CGs that are more advanced and which would be able to commit to larger contributions. In keeping with the Operating Principle of inclusion, it is recommended that a cash contribution be required, but that it be low (e.g. 3%-5%). Local contributions must be in the bank before any disbursements are made. As in-kind contributions are difficult to monitor, these are not included in the community's contribution, unless there are compelling reasons (e.g. no possibility of cash contribution and urgency of the proposed sub-project);

6.4 Part B: LIF Project Management and Institutional Arrangements

The LIF management model proposed here sees the LIF under the general management of MOED, the Executing Agency for the larger Social Infrastructure and Capacity Building for Regional Towns Project. LIF-specific institutional arrangements occur at three different levels: community, regional town and national, as shown in Figure 6-1, following:

Figure 6-1: INSTITUTIONAL FRAMEWORK FOR THE LIF

6.4.1 National Level

A national **Local Investment Fund Coordinator** will be part of the MOED (Baku) - based Project Management Unit (PMU). The Coordinator's salary is included in the Implementation Assistance Component. The Coordinator will be able to draw upon the resources and services of the PMU (financial; auditing; mentoring and evaluation, etc.) The Coordinator will be responsible for overseeing the LIF component within the overall Project and within the PMU. This Coordinator will have several responsibilities:

- Report to the PMU Director who, in turn, reports to MOED and the Project Steering Committee (PSC) on LIF progress;
- Identify lessons learned and incorporate these into the on-going updating and planning of LIF on an annual basis;
- Submit community sub-project proposals exceeding \$25,000 to the PSC; iv) supervise and oversee monitoring and evaluation activities of the LIF;

- Ensure that the component operates consistent with procedures defined in the OM;
- Authorize disbursement of funds to grantees;
- Provide institutional support to LIF staff at the RT level, including approval of contracting in of services as needed (e.g. engineering, etc.);
- Recommend to PMU annual allocations or re-allocations of s budgets to each of the participating RTs' LIFs based on annual performance and disbursement Goals of the LIF;
- Perform a networking function among the RTs, ensuring information flows and inter-regional transfer of lessons learned;
- Provide a public relations function regarding the LIF.

While the LIF Coordinator will generally accept CCC decisions regarding sub-project proposals to be approved, he/she will have the authority to delay or refuse approval if, and where, OM procedures have not been followed or if the proposed micro-project is not consistent without Project objectives.

6.4.2 Regional Towns (RTs)

There are five institutional entities involved with the LIF at the Regional Town level:

- **RT LIF Staff:** Two regional Azerbaijani LIF staff will be located in an LIF Regional Implementation Unit (RIU), as part of the Regional Town PIU. The two LIF staff will include: i) A combined community-driven development/capacity-building/training specialist (CBT); ii) a monitoring and evaluation/monitoring information system specialist (ME). They will be able to draw upon the resources of the PIU staff and/or will contract out service needs related to engineering; procurement; financial/auditing; environmental, expertise etc.; to review CG proposals and support implementation. The functions of LIF RIU staff will be to: i) oversee/supervise the capacity building/training/ day-to-day implementation of community support; ii) to oversee preparation of information materials; iii) to present LIF to the community; iv) to receive community proposals and review them for compliance with LIF Goals and the OM; v) once reviewed, submit recommendations for approval/non-approval to the CCC and to the LIF Coordinator in the PMU; vi) undertake on-going monitoring of community sub-projects and maintain reports/records of such monitoring, and report on issues that arise in a timely manner, to the CCC and LIF Regional Coordinator;
- **LIF Facilitation Consultants (LFCs):** As the Community Project Implementation Cycle (CPIC) reflects, there will be a need throughout the Cycle for regular and continuous "on-the-ground" community group support in the form of capacity-building, training and facilitation of the implementation process through the seven Steps of the CPIC (see Section 7). The

responsibility of the LFCs will be to: i) undertake all capacity-building and training tasks specified in the CPIC over the 5 year period; ii) prepare training and information materials for approval by the LIF Coordinator; iii) present regular reports to the PIU/LIF RIU staff regarding CG progress; iv) report on any potential/existing issues in a timely manner so that LIF RIU staff can address them. The contracting of LFCs will occur utilizing ADB approved tendering procedures.

There are options regarding the contracting process that may be built into the tendering process: a) one contractor is chosen that fields all of the LFCs needed in the participating RTs; or b) LFCs are chosen on an RT-by-RT basis. It is envisaged that the LFC group contracted would, ideally, combine international and local expertise, to enable the two-way transfer of local and international knowledge and expertise. Emphasis should be placed on the LFC's experience with highly participatory, 'learning by doing' approaches to community support

- **RT Community Coordination Committee (CCC):** The CCC will consist of governmental and non-governmental representatives of the Regional Town, including: i) Local Executive Authority (1 member) ; ii) Municipal Coordinating Council (1 senior member – Director or Deputy) ; iii) RT representative from State Committee for Refugees and IDPs (1) iv) Local rotating civil society representatives (cannot be members of CGs submitting proposal) (2 members). The responsibilities of the CCC will be to: i) assist with information dissemination and promotion of LIF; ii) receive recommendations (via reports) from regional LIF RIU staff regarding sub-projects recommended for funding/delayed/not recommended for funding, and ensure that such reports are complete and in compliance with the OM. Their role is to approve the sub-projects recommended for funding provided that the sub-projects conform with overall LIF Goals and procedures. If and where they are dissatisfied, they can require the LIF staff to prepare additional information, and can delay approval until required information is provided. Their role should not be sub-project selection because of the political make-up of the Committee, which would open the opportunity for a perception of favouritism, and which could severely undermine the legitimacy of the process.
- **Baladiiyas:** Baladiiyas will serve multiple functions related to the LIF component including programme promotion, being an active development partner with community groups, funding channel, and serving as a vehicle for training and capacity building activities.
- **Local Executive Authorities (LEAs):** LEAs have an important role to play in the LIF. They have line ministries which may need to have input/approve sub-projects (e.g. if they involve areas of health, education) and they also may be able to assist CGs (e.g. where information is needed on ownership of property or land), etc.

It should be noted that these recommended institutional arrangements are based on, and follow from, the findings of the Social Assessment and what government and non-governmental stakeholders stressed as important, as

well as on the experience of other programmes undertaken in Azerbaijan and elsewhere. In essence, CGs are the implementing agencies, with the direct training and support of the contracted entity, with the supervision and oversight of LIF RIU staff, and with the further oversight of the CCC.

6.4.3 Community Level

As described in the CPIC, during the early Steps of the project cycle, leaders within those CGs with an organizational structure in place will be involved through the process of information dissemination about the LIF and through information meetings and follow-up. Those CGs without a leadership structure, which express an interest in developing one (a requirement for LIF participation) will be assisted through the capacity-building process under the Capacity Building for Local Government (CBLG) activities of the PPTA, and through such assistance provided by the LIF Facilitation Consultants. At the beginning of the proposal preparation Step, and for the subsequent Steps, an LIF Committee within the CG will be formed and will become the first line of liaison between the LIF and the CG. The LIF Committee within the CG will be representative of community members, based on an open process for LIF Committee formation. Self-monitoring and evaluation by the CG will help to ensure the success of the sub-project, while other levels of monitoring and evaluation, undertaken by the LFCs, the LIF RIU and annually, by an outside monitoring and evaluation specialist, will further ensure strong community participation and sub-project success.

6.5 Overview of the Community Project Implementation Cycle (CPIC)

The Community Project Implementation Cycle is the very essence of the LIF. It is the blueprint for community groups' assumption of ownership for the realization of sub-project identification, approval, implementation, monitoring and evaluation, and operation and maintenance. It defines a process to work together on a commonly desired sub-project identification and implementation process, to learn new life skills and to realize community-driven project benefits.

As Figure 6-1 at the end of this section depicts and as describe in depth in Annex M, the CPIC contains seven Steps:

A. LIF Preparation: This preparation Step involves development and dissemination of information about the LIF, a CG capacity and needs appraisal, initiation of a CG capacity building programme and preliminary allocation of project funds to each RT based on the capacity and needs assessment;

B. Outreach and Social Preparation: The purpose of this Step is to begin the dialogue about the LIF through meetings with official government stakeholders and question and answer meetings with community members interested in learning more about the LIF and its possibilities;

C. Preliminary Proposals (PPs) Interested CGs will be trained to submit PPs that contain sufficient information to enable a transparent screening out of ineligible CGs/ineligible sub-projects. The goal of this stage is to avoid committing interested CGs to an unwarrantedly onerous process of detailed sub-project

preparation that could be avoided by this first screening stage. This Step first involves the training and capacity-building of CGs to fill out the PP form using a 'learning by doing' process (see OM) and to satisfy fundamental criteria for LIF participation (e.g. eligibility of sub-project; eligibility of CG; cost estimate within the eligible limit; commitment to community contribution; legal status/modality for obtaining bank account; legal ownership of any property/real estate involved in proposed LIF sub-project, provisions for operation and maintenance/sustainability; etc.) Once the form is filled, there is a two-step stage of Preliminary Proposals' appraisal and approval by the LIF staff and endorsement by the Community Coordination Committee (see Project Management and Institutional Arrangements).

D. Detailed Proposal Preparation and Selection: Those CGs that have had their PPs approved will proceed to prepare a detailed proposal for funding. This step will involve on-going capacity-building and training. Tasks will include the formation of an LIF Committee within the CG, finalization of the preferred sub-project option, draft proposal preparation using a 'learning by doing' approach. The detailed proposal will require a detailed operations and maintenance plan, among others, to assure sub-project sustainability;

E. Sub-Project Proposal Appraisal, Approval and Grant Agreement: It is envisaged that there will be one project cycle per year, or one "tranche" of approved sub-projects annually. During Steps A to C, an appraisal will be undertaken by LIF RIU staff to evaluate likely sub-project applications to be received and to screen such applications such that they do not grossly exceed RT annual budgetary allocations (see OM). RT LIF staff will undertake desk and field appraisals of the proposals, make recommendations for funding of sub-projects meeting specific criteria (see OM); and, present recommended sub-projects to the CCC. If the CCC finds proposals conform to OM requirements, these proposed sub-projects will be submitted to the LIF Coordinator within the PMU for preparation of the Grant Agreement. CGs will be supported to sign contractual agreements with the PMU, open bank accounts, and receive first funding instalments. Once the CGs have submitted their bank account details, they can request the first tranche. The Grant Agreement will define the share of the first and subsequent financial tranches and the corresponding specific progress milestones. These should already have been defined in the community sub-project proposals. If the CGs are not able to provide the bank account details within a reasonable amount of time after signing the Grant Agreement (30 days), the Grant Agreement should be cancelled. (In the event that CGs cannot be registered, there are other options that will have been identified during the PP stage [e.g. CG can be registered with the Baladiya or a local NGO, who open subsidiary bank accounts]).

F. Sub-Project Implementation: An iterative process of capacity-building and training will be provided to enable CGs, through their LIF Committees, to oversee implementation, among others, in procurement, bookkeeping and financial management, reporting, participatory self-monitoring, communications, problem-solving, etc. Sub-project milestones will have been agreed in the Grant Agreement, which must be met before the next funding instalment occurs. Progress reports/monitoring will be undertaken by LIF Committees within CGs and by LIF staff. To meet the Operating Principle of accountability, if progress is inadequate or problems are found, procedures specified in the OM will become

operational whereby CGs will have an opportunity to correct problems/derive satisfactory solutions. If there are grounds for delaying or cancelling the sub-project, such recommendations will be forwarded to the CCC for its consideration and approval, which will then be forwarded to the LIF Coordinator in the PMU. In this way, communities will have a built-in incentive to minimize any threats to the ultimate achievement of the LIF sub-project;

G. Sub-Project Completion and Evaluation: Sub-project success will be evaluated by both the CGs themselves and by the LIF staff, against criteria specified in the OM. Lessons learned will be identified that can be helpful in future years of the LIF. The LIF will also include an evaluation after 20-25 sub-projects have been completed and then at the LIF interim point, regarding the cost effectiveness of LIF sub-projects against other implementation mechanisms. A Monitoring and Evaluation process will also be undertaken annually by an outside independent entity on behalf of the Asian Development Bank to enable an additional, impartial view of LIF performance.

Threaded throughout these seven Steps are capacity-building and training processes that enable CGs to realize implementation of the sub-projects that they have identified (See Section 7).

6.6 LIF Sub-Project Monitoring and Transparency Measures

Sub-project monitoring and evaluation are seen as critically important. They will occur in different ways and will be undertaken by different institutions as part of the LIF process, beginning at the CG level and evolving up to the PMU:

- **Community-driven sub-project selection and implementation:** Sub-projects are identified by the local CG's utilizing open and highly participatory processes. CGs assume the responsibilities that go along with the benefits of LIF funding, including: a) creation of a leadership structure; b) obtaining of legal status sufficient to receive funds and/or a suitable alternative; c) establishment of financial management and reporting systems; d) raising of community contributions; e) conformity with LIF procedures and contractual elements; e) **mandatory CG Self-Monitoring and Evaluation:** CG LIF Committees and GC leadership will be trained and required to facilitate a participatory self-monitoring process. Among others monitoring will address various milestones established in the Grant Agreement signed with the CG, including the meeting of deadlines, budgets and completion of other implementation steps (e.g. participation in capacity-building; inclusion of CG members, etc. CGs will be required to undertake an ex post evaluation of the success of the sub-project, evaluated, among others, in terms of whether the intended beneficiaries have benefited, whether operations and maintenance commitments have been met, etc.
- **LIF Facilitation Consultants (LFCs):** LFCs will be responsible for reporting regularly to the LIF RIU on factual matters regarding progress of CGs and flagging any issues that arise (e.g. inadequate attendance at meetings, lateness, delays, etc.). They will also provide annual ex post evaluations of the success of their capacity-building efforts, lessons learned, and improvements that can be made in subsequent years;

- **LIF RIU Staff:** The RT's LIF RIU staff have front line responsibility for monitoring the CGs and the LFCs as far as following the CPIC process and meeting their goals and commitments. Their main function will be to supervise and oversee the LFCs in a hands-on manner, thereby providing the LIF Staff with first hand observations of progress. Their responsibility will be to prepare reports, flagging areas of concern, for submission to the CCC and the LIF Coordinator, and to make recommendations if and where monitoring efforts show problems. They will prepare ex post evaluations of the sub-projects, addressing whether intended beneficiaries have received sub-project benefits, whether O&M plans have been realized, etc.
- **LIF Regional Coordinator:** He/she will supervise preparation of monitoring and evaluation reports for review by the MOED, PMU and the ADB, and will be responsible for preparing a consolidated report on all of the participating RTs' LIF sub-projects. The LIF Regional Coordinator will also undertake spot check monitoring (e.g. sitting in on training sessions; verifying that milestones have been met, etc.) and overall, undertaking a quality performance review on monitoring reports.
- **Outside Review:** An outside review consultant is recommended, ideally funded outside of the sub-project, to undertake an independent review of processes, sub-projects and their impacts. Among the questions to be addressed would be: Did the small community sub-projects have their intended impacts on beneficiaries? Was full participation realized, or not? Were there any discrepancies/weaknesses in financial reporting? This outside review should occur on an annual basis.

6.7 LIF Investment Strategy

The LIF fund will total \$4 million and will be disbursed among 8 RTs over the 5-year Project implementation period. Annual allocation of LIF funds to each RT will be based on the population within each RT and on a \$/capita calculation. However, an absolute minimum and maximum level per RT will be set to ensure that the smaller RTs receive funds sufficient to undertake a critical mass of sub-projects (and to ensure that the larger RTs do not receive an undue proportion of the available funds at the expense of the smaller centres). **Note:** Because of high levels of unofficial migration, official population figures for the RTs should be modified based on more refined estimates derived from such sources as the SPPRED Secretariat, humanitarian agencies working in the RTs, the findings of the Cities Alliance initiative, etc.

Flexibility should exist from year to year regarding RT allocations based on the performance of CGs in each town and the pace of disbursement (e.g. some RTs may find it easier than others to realize sub-project approval on time, while others may be able to process more than their share, such that a decision could be made at the time to shift allocations). Reallocation of funds that are not used in one RT to other RTs should be made possible to reward those RTs which have demonstrated two or three years of successful participation.

6.8 Safeguards

Given that specific activities will only be identified in the course of sub-project implementation, a framework mechanism for screening for environmental impacts, developing mitigation plans and monitoring environmental progress is required (See **Annex M**). Environmental training for sub-project preparation and assessment will be provided as part of capacity building and training (See Section 7).

Key considerations to be taken into account would include:

- Generic initial screening to determine appropriate EA;
- Compliance with existing environmental regulations;
- Analysis of alternatives;
- Public participation, consultation and social assessment considerations;
- Information disclosure.

A resettlement framework is provided in **Annex M** although it is recommended that micro-projects triggering resettlement not be eligible for LIF funding.

6.9 Environmental Impact Assessment Framework

The aim of the EIA framework of the LIF component of the proposed project is to provide the overall guidance for the selection and assessment of sub-project proposals, submitted by CGs. All selected sub-projects must be not harmful for environment. Appropriate mitigation measures must be determined and applied at the planning, design, construction, and operation stages. The priority will be given to sub-projects, involving improvement of the housing, social and engineering infrastructure assets, urban landscape, efficient use of resources, and introduction of green technologies. Opposite to it, the following criteria will be applied to sub-projects, not eligible for funding:

- Involvement of resettlement at any scale;
- Harmful influence to environment by the use of hazardous materials and technologies, generation of uncontrolled primary and secondary pollution;
- Depletion of local eco systems (e.g. liquidation of green areas and cut-down of individual trees on non replaceable base);
- Illegal connections to engineering infrastructure services: water supply, sewerage, electricity, gas supply;
- Illegal use of social infrastructure assets (schools, culture house, play grounds, and stations);
- Illegal changes to architectural forms and urban landscapes;

6.10 Potential Other LIF Models and Recommended Activities to Finalize the LIF

Decision-making regarding sub-project selection under the model presented above is undertaken by LIF staff within the Project Implementation Unit (PIU) for the larger SIRT project. The role of the Community Coordination Committee is one of ensuring compliance with the Operational Manual, i.e., to ensure transparency. The underlying aim of this approach was to reduce the possibility

of a CCC being political in its choice of projects, and to put technical responsibility for sub-project evaluation in the hands of the technical specialists (LIF staff). Another aim was to create the possibility for municipal entities/baladiiyas to partner with CGs on proposals and implementation. This was not seen as possible, or as transparent, if the CCC, which includes baladiya members, were in charge of actually selecting/approving sub-projects. Monies under this scenario would flow from the central PMU to the CGs directly, once the PMU had received notice of approval from the CCC, based on the latter's acceptance of the sub-project as complying with the O.M. In this model, on-going capacity-building responsibility is given to an outside contractor specializing in community-driven development, in recognition of the considerable on-going support that CGs would need to complete the seven steps of the CPIC process.

An alternative option has been proposed that would see a reversal of roles between the CCC and the LIF staff within the PIU. Under this scenario, responsibility for sub-project selection would be given to the CCC, whereby it would appraise, evaluate and approve CG's proposals and would guide – or discourage – proposals that appear to be inconsistent with the LIF's Operations Manual. There would be no LIF staff in the RT. Rather, LIF support would come from the PMU as required, leaving considerable responsibility with the CCC. The role of LIF staff from the PMU would be to support the set-up/capacity building process and to ensure compliance with environmental, social and technical safeguards. Under this model, it appears that the CCC would actually receive annual LIF funding from the PMU and disburse it themselves.

This latter scenario raises a number of questions/challenges on a number of fronts⁶⁴:

- **Roles:** If the role of the LIF support staff is to provide support to the CCC and ensure safeguard compliance, they should probably be reporting to the CCC (and not be a part of the PMU). Otherwise LIF teams would be in a conflict of interest situation, in that they would be in the position both of providing services to the CGs and monitoring them (which is a PMU role);
- **Accountability of the Entity Receiving the Money:** The entity that does the procurement for the sub-project should be accountable for the use of funds. Thus, this responsibility should stay with the CG, in order to stay within the community-driven model in which key investment decisions (e.g. choices of level of services, contracting decisions) and management decisions are primarily made by communities. If the CG is responsible for procurement, it would be accountable for the use of funds. The question becomes how to ensure accountability. Some options include the following:
 - Make the status of the account and expenses publicly available to the community on a daily basis;
 - Have several CG members of various social groups sign the requests for subsequent funds and for getting funds from the CG account; or

⁶⁴

Assistance has been provided by World Bank consultant Karin Fock in regard to evaluation of the issues and opportunities raised by this second option.

- Funds could be paid directly from the CCC to the contractors, in which case the CG should probably still involved in selecting the contractor, to avoid possible meddling of the CCC with contractors;
 - Have the LIF team check whether progress against milestones is consistent with funds used to date, to justify release of a subsequent tranche by the CCC;
 - Establish an anonymous grievance mechanism through which community members can report any perceived irregularities to a third party for investigation;
 - Create positive incentives including: possibility of a repeater project for the CG; possibility of increased allocation to RTs with best track record for correct use of funds;
 - Create negative incentives including: mechanism/process for stopping the process; blacklisting of the community; reduction of allocations to the RT for the following year.
- **Technical capacity:** The seven step CPIC, while designed with the goal of simplicity in mind, still involves on-going assistance in many areas, including engineering, management and management information systems, accounting, budgeting, procurement, environmental and social impact assessment, monitoring and evaluation, communications, etc. Under the scenario presented earlier, there would be a LIF staff located in each RT, and assistance would also be provided by technical staff hired for the larger SIRT. Under this alternative scenario, it appears that the assumption is that the level of support required by communities would be occasional engineering assistance to be provided by the local SIRT office, or by hiring of consultants on a case by case basis. This kind of support may not be sufficient.
 - **Structure within CG:** The model described earlier proposes that an LIF committee be formed within the CG to be responsible for the carrying out of the sub-project. Under this second alternative, the need for such a committee is raised, the alternative being to focus on mechanisms to make sub-project implementation transparent and make CGs accountable to their peers/fellow citizens. However, if CGs are to have responsibility for procurement and disbursement and other management decisions, there needs to be some organizational structure, including an accountability mechanism, and a bank account. The CG must define how it is planning to make decisions and who is accountable to whom. It needs to be documented that these mechanisms are acceptable to the majority of the CG. The difficulty with this scenario is monitoring;
 - **Monitoring:** Section 6.6 describes monitoring mechanisms for the first scenario. Those recommended for the CGs themselves would likely be similar under this second scenario. However, the new scenario raises a number of questions, among them:
 - How with the PMU hold CCCs accountable for the use of the annual fund?
 - How will the CCCs hold CGs responsible for use of sub-project funds?
 - Should the PMU hold CCC's accountable for all of the individual sub-projects, or more generally, for the use of the overall allocation?

- Who does the monitoring?
- **Choice of Membership of the CCC and its Functions:** The success of this model would appear to depend heavily on the effectiveness of the CCC which is given such a large role. There needs to be careful selection of the CCC such that its members are:
 - respected by the community at large;
 - balanced in terms of power, such that governmental authorities cannot overpower members from civil society;
 - subject to change, depending on performance;
 - experienced in the skill sets that will be required of CCCs; and
 - have sufficient time to allocate.

This second option, while more decentralized with respect to decision-making, may have a higher risk of failure, and of rent-seeking/invalidation. While its merit is in placing power in the hands of local RT decision-makers, it is contrary to what local community stakeholders and some key informants from the international donor community recommended. These groups recommended that power be largely in the hands of the PMU and its staff. Otherwise, issues related to corruption have a greater chance of occurring.

The issues raised above need to be considered in more depth through an analysis of other CDD models and LIF-like programmes' experiences, and through a consultative process with local stakeholders, themselves.

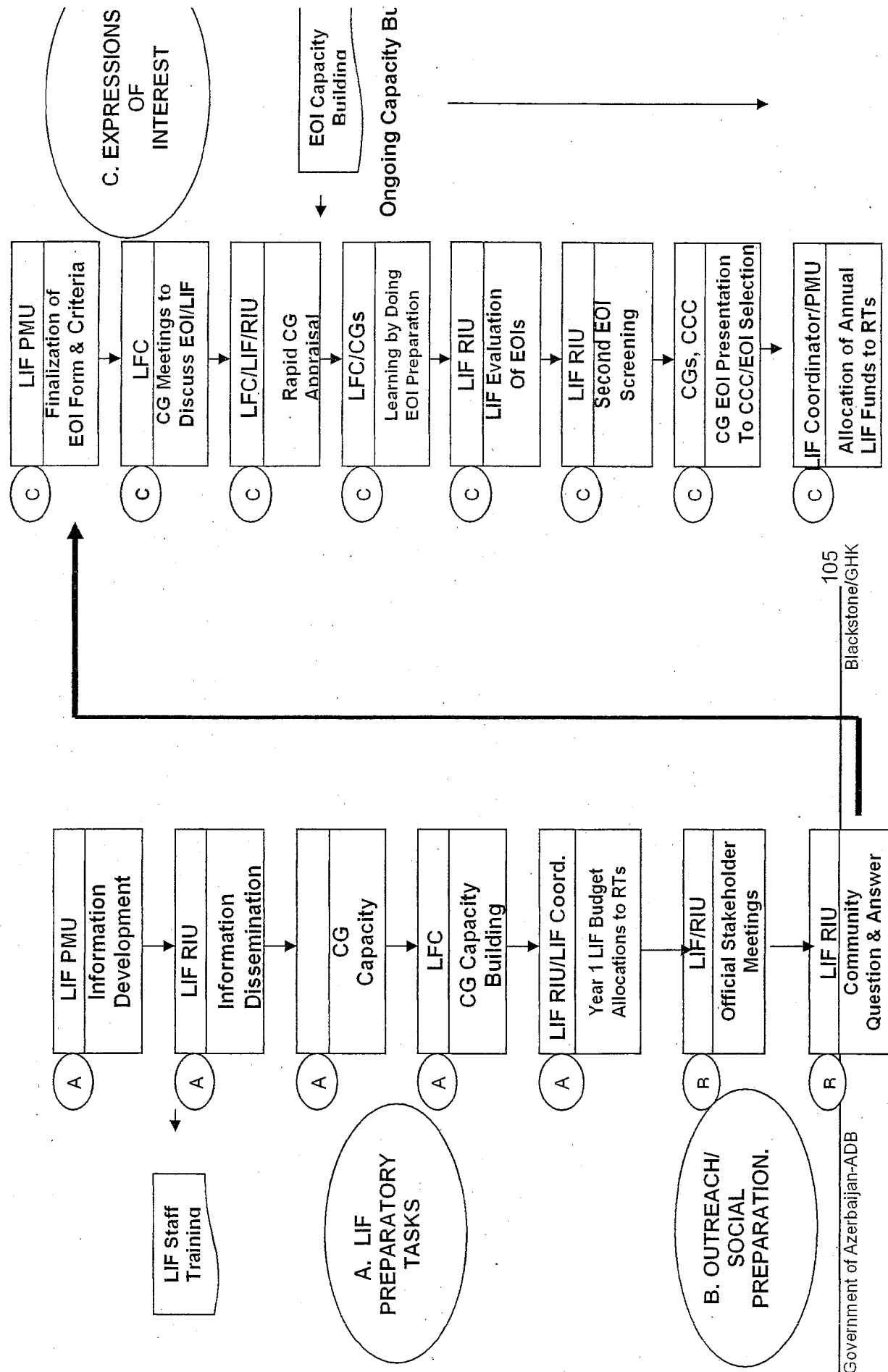
A third model has recently been identified that should also be considered/investigated for its relevance to the refining of the LIF. The "Community Investment Programme" (CIP) is being undertaken in Azerbaijan in relation to the construction of the BTC pipeline. Its stated aims are:

- Empowering communities to mobilize internal and external resources to improve their living conditions by addressing self-defined needs;
- Supporting access to improved social infrastructure and the development of agriculture;
- Improving awareness of health and sanitation issues;
- Improving livelihoods and business opportunities.

The planned result of CIP activities "is to have mobilized (trained) communities who are experienced in identifying priority needs and working together to address them."⁶⁵ A set of steps, similar to the CPIC, has been developed that culminates in the implementation of micro-projects. The process includes the training of municipal councillors, "to help improve their knowledge, awareness and involvement." Under this model a community leadership group is democratically elected by the community and services as the primary contact for the channelling of funds through NGOs. At the very least, this model will offer direct and current lessons-learned in Azerbaijan regarding the animation of communities groups to undertake social infrastructure projects.

⁶⁵ See International Rescue Committee Website.

Fig. 6-1: Local Initiatives Fund (LIF) Community Project Implementation Cycle (CPIC) – Sequence of Tasks through 7 Steps and Related Responsibility



The flowchart illustrates the LIF process, starting with 'CGs Leaders Training' and 'CG LIF Committee Training', leading to 'D. DETAILED PROPOSAL PREPARATION'. The process then moves through stages D-1 to D-7, involving LFC, CG/LFC, and LIF RIU/CCC. It continues to E. APPROVAL BY LIF COORDINATOR, F. PROJECT IMPLEMENTATION, and G. PROJECT COMPLETION/EVALUATION, involving LIF RIU/COORD, PMU/CG, and LIF Monitor+ outside Social Investment Cost Benefit Analyses.

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graph TD
    D0[CGs Leaders Training] --> D1[D-1 LFC CG Information Meeting]
    D1 --> D2[D-2 CG/LFC/LIF RIU CG LIF Committee Formation]
    D2 --> D3[D-3 CG/LFC CG Self Evaluation & LIF RIU Report]
    D3 --> D4[D-4 CG/LFC Preferred S.I. Project Selection]
    D4 --> D5[D-5 CG/LFC/LIF/SII Learning by Doing Draft Proposal Prep.]
    D5 --> D6[D-6 LIF RIU/CCC Desk and Field Appraisal]
    D6 --> D7[D-7 CG/CCC Proposal Presentation To CCC]
    D7 --> E[E. APPROVAL BY LIF COORDINATOR]
    E --> F[F. PROJECT IMPLEMENTATION]
    F --> G[G. PROJECT COMPLETION/EVALUATION]
    G --> D0
  
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D. DETAILED PROPOSAL PREPARATION

D-1 LFC
CG Information Meeting

D-2 CG/LFC/LIF RIU
CG LIF Committee Formation

D-3 CG/LFC
CG Self Evaluation & LIF RIU Report

D-4 CG/LFC
Preferred S.I. Project Selection

D-5 CG/LFC/LIF/SII
Learning by Doing Draft Proposal Prep.

D-6 LIF RIU/CCC
Desk and Field Appraisal

D-7 CG/CCC
Proposal Presentation To CCC

E. APPROVAL BY LIF COORDINATOR

E-1 LIF RIU/LIF COORD
RECOMMEND PRO'S TO PMU

E-2 LIF COORD.
Finalization of Annual Projects

E-3 PMU/CG.
CG Grant Agreement Signed

F-1 LFCS
Projects Implementation

F-2 LIF/CG /LIF COORD
Projects' Monitoring

F. PROJECT IMPLEMENTATION

F-3 LIF RIU
Progress Review

F-4 LIF RIU/CCC
Decision to Continue To Next Installment

F-5 CG; LIF RIU; PMU
CG Appeal/Grace Period if Necessary

G-1 CGs; LIF RIU; Coord
Projects Evaluation

G-2 LIF Monitor+ outside
Social Investment Cost Benefit Analyses

G. PROJECT COMPLETION/ EVALUATION

7.0 CAPACITY BUILDING (CBLG) FOR THE SIRT AND LIF

In this section, capacity building issues are discussed and recommendations made regarding:

- training/capacity building needed to implement the LIF; and
- Training/capacity building focused on the SIRT and improved local self governance.

It should be noted that capacity building measures for the SII are discussed in Section 4. It should also be noted that capacity building for the LIF will be finalized in a future phase of the PPTA, once additional regional towns (RTs) have been selected for participation and alternative LIF methodologies have been considered. It should also be noted that the discussion of capacity building for the SIRT is preliminary, as a future phase of the PPTA will more fully elaborate needs related to self governance in the eight participating RTs, some of which are yet to be selected.

7.1 Capacity Building Defined

Capacity building encompasses the following categories of activity:

- **Human Resources Development:** Following the training cycle and utilizing basic principals and practices of adult education, HRD is directed at the individual or groups of individuals to develop their capacity to carry out their job functions as appropriate, towards the achievement of organizational goals. This activity often takes the form of experiential training in all its modalities (e.g., classroom, mentoring, on-the-job, etc. [Note: Training is considered a subset of capacity-building];
- **Organizational Development (OD):** Organizational Development is directed at an institution to develop its capacity to organize and manage groups of individuals to deliver its mission. This activity can include the development of goals and mission statements, strategic plans, management structures, financial systems, orientation to clients, etc.;
- **Infrastructure Development:** This category refers to the necessary construction and/or equipment required in order for the organization and its people to function successfully.

If any one of these three areas is insufficiently developed there is a risk that the organization and its people will not be able to function in an efficient and effective manner.

7.2 Local Government Capacity Baselines

Annex G contains a detailed assessment of the local institutional and financial capacity of local government entities in Barda, Mingechevir and Sumgayit, all of which are expected to participate both in the SII and the SIRT. In addition, Section 3.5 has defined general legal/regulatory/institutional issues that affect consideration of capacity-building needs/issues. A summary of findings is provided below:

7.2.1 Barda

- The LEA has thirty-five employees, the number of which is calculated based on per capita population standards used throughout the country. While typically, the LEA structure mirrors the national level ministerial structure, it is important to note that Barda does not have an Economic Affairs Department, which would normally be given, among others, responsibility for infrastructure. Rather, this responsibility has been given to its Agrarian Department, reflecting the importance of agriculture to the Rayon's economic base. The LEA has a State-derived "social and economic development plan". At present the State, through the LEA, controls all infrastructure except for roads. The LEA⁶⁶ reports an annual budget for the Rayon of approximately US\$6.6 million, or approximately \$47 per registered person or \$25 per actual resident. Of this, US \$1.0 million derives from local business taxes on land and property. Assuming revenue is proportionally distributed with a slight bias to the urban centre, Barda City's annual LEA budget would be in the order of \$2.6 million or \$65 per registered person or an estimated \$37 per actual resident⁶⁷. Of the total budget, approximately \$2.0 million, or 76% is spent on salaries and administration, with the remaining balance going to various social infrastructure projects (e.g., \$300,000 for roads, sidewalks trees and streetlights including \$30,000 for road repairs). Priority Issues Identified by the LEA included⁶⁸:
 - education - highlighted partly because 7 of 9 local schools are currently occupied in whole or in part by IDPs;
 - water supply;
 - sanitation;
 - drainage and irrigation (rural areas); and
 - street lights.
- The baladiya (municipal council) has fifteen elected Councillors (almost one staff per 1,000 official residents) and 35 paid staff. (A further analysis of the budget provided to the team is required as it indicates an average salary of only \$28 per month for the 35 full-time employees, inconsistent with other information obtained suggesting an average salary of \$70). Four permanent commissions set policies and guide the work of three Departments. Offices are located in facilities provided by, and owned by, the State. Office equipment is very limited (only two computers were evident). While its budget for 2005 is only \$40,000 (versus \$6.6 million for the LEA), Barda has allocated a total of just under 50% (\$18,200) to social affairs, including \$5,000 to parks development, \$4,000 in charitable payments and \$4,400 to road repair. The baladiya collects only 2% of total local taxes (the 98% being collected by the LEA). Baladiyas are restricted to collecting land and property tax revenue from individual residential properties. These total approximately 8,000 in Barda. Of these, 50% are exempt from tax as the properties are assessed below the minimum 45 million manat level. Of the remaining 4,000 potential taxpayers, the baladiya was only able to collect from 60%. At 100% this would amount to total revenue of only \$10,800 per year, or a little over \$1 per property. A financial and planning constraint is the uncertainty surrounding transfer of land to the municipality. Although mandated through the legislation that such a transfer would happen, in actuality much of the prime land was sold and/or lucrative commercial and/or development lands remain in the hands of the LEA. In terms of human resource capacity, the baladiya reports receiving extensive and good

⁶⁶ Unconfirmed numbers from interview with First Deputy and consultant analysis.

⁶⁷ consultant estimate

⁶⁸ As shall be seen, water, sanitation and electricity are priority infrastructure issues in all three RTs.

theoretical training from a number of sources on management and administration of local government. Their major need now is for financial grants, combined with practical on-the-job mentoring, to enable the authority to implement some of the many locally-prioritised projects. The Barda baladiya readily provided its Three-Year Plan (2005-07), which includes a list of twenty-three social programme activities, four "electrical equipment" initiatives and three water supply priorities for action. Among others, the social programme identifies specific locations for improved asphaltting of roads and development of pedestrian paths. The electrical equipment priorities include installation of electrical cables and/or transformers in new blocks. The water-related priorities are for the digging of new artesian wells. A detailed review of these suggestions will form part of the next phase of the PPTA as specific sub-project investments are identified.

- **Mahala Komitesi/Block Committees:** Some nineteen Mahalas are active in Barda providing local community representation for the majority of residents. One of the "clusters" of block communities has developed a detailed list of high-priority projects (with the assistance of ARAN – see Section 3.6). These include construction of a school, a medical centre, roads rehabilitation, digging of wells and construction of gas lines (these mostly in rural areas, but demonstrating the potential of these groups to spearhead community-based projects.)

7.2.2 Mingechevir

- **The LEA:** The structure of the Mingechevir LEA is consistent with national norms as far as its total paid staff of 42 persons is concerned. Unlike Barda, Mingechevir is its own district and is not subject to a separate Rayon level LEA, although some responsibilities such as taxation are covered by a regional office in Yevlakh. LEA members may be appointed from outside the community and serve tenures of indefinite lengths. It is of relevance to the SIRT that recently the State has replaced the LEA head in Mingechevir with a local resident with a reputation for community participation. He is also a member of his local Mahala and is beginning to establish relations between the LEA and Mahalas in the city. Others report that in just a matter of weeks relationships between the LEA and the people have changed dramatically as residents are optimistic about more locally responsive support and collaboration with other local government elements. The new Head of the LEA indicates that roles of the LEA and the Baladiya are the same, just differently applied to lands under their respective control. Mingechevir LEA's budget for 2005 is set at M 34 billion (US\$ 6.8 million) with M 6.4 Billion (US\$ 1.28 million) coming from local tax revenue and the rest from the State;
- **The baladiya (municipal council):** Mingechevir's baladiya has a full-time staff of 40 persons including the 17 elected Councillors. They are housed in a prominent building, not owned by the municipality, on the central square. Staff are paid an average monthly salary of \$35 according to the budget, although the team's analysis has identified inconsistencies that need clarification. Its budget for 2005 is estimated at \$150,000, up from the \$127,000 for 2004. The Chairman reports collecting \$15,000 in land tax, but their published budget reflects only \$6,000 collected. They are unable to collect property tax due to lack of authority and local resistance. While it was reported that taxes in the order of \$100,000 were collected as royalties on extracted building materials from municipal lands, the budget does not reflect this. The single largest source of revenue, 50%, was from the sale of municipal land. An annual Budget of \$127,000 or \$150,000 amounts to roughly \$1 per person. The local IFES NGO office suggests that Mingechevir's baladiya is a good model of an open institution ready to accept new ideas and to work with the population. Its institution's overall structure shows a relatively

comprehensive structure whereby, in addition to the standard five permanent commissions, six supplementary commissions have been established to put additional emphasis on municipal issues concerning its land, relations with the public, youth and sport, mother and child care and, most recently, Mahala relations. In addition, a commission is established to focus on monitoring specific activities of the administration. It also established a Technical Production Unit to manufacture building materials including furniture, doors, windows and paving bricks for use in the baladiya's own projects and to sell to the general public. Concrete paving stones produced by the unit are currently being used in a very publicly-visible way to upgrade the central park. The unit was reported to currently employ seventy-three people, but most of these must be temporarily engaged in the park work as the Unit itself only employs five or six people. A preliminary review of finances suggests this is not a profitable or efficient enterprise. The Mingechevir Baladiya has applied to assume responsibility for all municipal services, although so far this has not happened. It has developed a three-year plan that includes, among others, construction of centres for funerals for several blocks, development of a youth centre, a children's playground, outside recreation areas, tree planting, etc., but lacks a long-term comprehensive development strategy. Good mapping does not exist. The local office of IFES continues to work with the baladiya and has provided significant training in many aspects of municipal management. As part of this, IFES holds weekly meetings bringing together the baladiya and mahalas. The training benefits are acknowledged by municipal officials who expressed the need is for funding to allow them to apply this training in real-life situations. IFES feels this baladiya now has the capacity to run projects;

- **Mahala Komitesi:** The mahala committees became seriously active in Mingechevir a year ago. IFES and Save the Children continue to provide active support in their development. There are currently 34 (25 active) mahalas representing about 45% of the municipality's population. The mahala's have formed a collective Union and, with Save the Children Fund support, have an equipped and readily accessible office within the local Ministry of Economic Development. The Mahala Union requested that a Commission be established within the Baladiya specifically to liaise with mahalas and this is now in place. The new LEA Head has also suggested a commission for "Assistance to Mahalas". They have implemented a number of local projects including a prominent clinic in conjunction with Save the Children and the Baladiya;

7.2.3 Sumgayit

- **The LEA:** Sumgayit's LEA has a full range of departments and 62 total staff. Nevertheless, the Economic Services Department, which is responsible for all infrastructure development, has a staff of only 5 people to address the substantial needs of a city of a size of between 300,000-420,000. The LEA reports good relations with the local Baladiya and shares programmes including a Social Development Programme, a General Development Programme for 2004-2008 in which a transfer of some responsibilities to the Baladiya is anticipated, joint support for the Regional Economic Development Programme, and shared interest in supporting the State's Poverty Reduction initiatives. The LEA's annual budget is estimated at \$17-18 million or about \$42 per resident. At the same time, it was pointed out that in 1989, before the collapse of the Soviet Union, Sumgayit's annual budget was in the order of \$100 million, or five times its present level;
- **The Baladiya (municipal council):** Sumgayit's baladiya had an annual budget in 2004 of just over \$US850,000. Interviews with officials suggested that Sumgayit's local government has greater capacity than those of Barda or Mingechevir. While

similar to other RTs, it has added a permanent Public Affairs Commission to, among others, liaise with mahalas, as well as a special department to deal with dachas. (There are some 20,000 dachas in the municipality, many of which have been privatised and are a major source of local revenue.) Like Mingechevir, some 50% of annual revenue is derived from the sale of municipal land. Because of Sumgayit's size it is entitled to a full slate of 19 Councillors. The baladiiya identifies three lines for developing civil society and its participation in Sumgayit: 1. Strengthening of Local Government (baladiiya); 2. Civic development through mahalas; and, 3. Improved relations with NGOs. Both baladiiya and mahalas have received substantial training from such agencies as World Vision, IFES, World Bank, UNDP, SOROS Foundation and others. The Sumgayit baladiiya operates its own construction company participating in such local projects as renovations to the local hospital, schools and kindergartens. Sumgayit received only about 5% of its revenue from land and property taxes. Some 21% of expenses went to salaries and wages, a further 23% to other administrative support costs including building utilities, etc., and 56% (\$479,000) to various social infrastructure and charitable support programmes. The baladiiya projects a need for \$1 million for next year to cover its numerous plans. They are already projecting revenues of \$900,000 including \$700,000 from local sources and the balance, from State subsidies. The baladiiya confirms municipal development priorities to be the improvement of major infrastructure elements such as water supply, sanitation and electricity. When private developers acquire municipal land for housing development they are requested (or required) to contribute 5-6% of the units to the baladiiya for allocation to needy families. Needy families were identified as newly-weds who could not afford a new home. IDPs do not figure into the housing scene as they are considered temporary and the baladiiya is prohibited by law from providing them housing or land, although they can get involved in common-area improvements. Officials acknowledge that the young generation of IDPs who know no other home than urban Sumgayit are going to be a major demographic issue facing government;

- **Mahala Komitesi:** Sumgayit is making significant effort to work closely with Mahala Committees, of which there are ninety-nine. The baladiiya has completed a complex infrastructure development strategy based on a block-by-block assessment of need and divided what are described as "micro-regions".

7.3 Capacity-related Issues Specific to the Three RTs

The following capacity-building issues have been identified, taking into consideration the legal/regulatory/institutional issues discussed in Section 3.5 and the RT-specific analyses described in Annex G:

7.3.1 Legal/Institutional

- There is a lack of clarity at the local level regarding roles and responsibilities (See Section 3.5) that impedes planning and implementation;
- In some instances, requirements under the law have not yet been fulfilled. For example, in Barda, the LEA has not transferred the land to the baladiiya, thereby impeding the latter's financial viability;
- In Barda, there is no MOED local representation at present;

- Anything but short term planning is impeded as a result of the inability/lack of capacity to collect the revenues that are due the baladiiyas;
- Weak civil society and impediments to NGO formation which could have an adverse impact on the effectiveness of the LIF and other aspects of the SIRT.

7.3.2 Financial

- With revenues currently so low for the average baladiiya, a significant proportion of revenue is spent on maintaining the establishment - salaries and utilities (60% of the total operating income in Barda and 114% in Mingechevir. In Sumgayit, the figure is somewhat lower at 33% reflecting the proportionately larger population base and higher tax generation;
- Baladiiyas are selling lands transferred by the LEA to augment resources to meet their local obligations. This practice is unsustainable as potential long-term sources of rental income are being lost forever through current sales. Moreover, the sales price is determined under the 2001 Decree of the Cabinet of Ministers, which is much below the current market prices in the area. In Mingechevir and Sumgayit where the LEA has transferred most of the lands to the baladiiyas, income from sale of land was the biggest revenue item, \$70,000 in Mingaechevir and \$466,000 in Sumgayit. Sumgayit mainly utilised this in construction/creation of assets;
- Due to the lack of effective survey mechanisms that keep an account of taxable properties, all lands and buildings with in the Baladiiyas are not under the tax net. *Tax mapping* is lacking and there are properties not covered, or undervalued during assessment.
- Baladiiyas reported difficulties in assessing the mining tax and have no option but to accept the amounts paid by the mining enterprises;
- Baladiiyas' accounts are maintained under a cash system which does not truly reflect financial performance, as both income and expenditures are accounted to the extent these are realised or incurred. Annual statement of affairs (Balance sheets) are not prepared and, as a result, baladiiyas' assets and liabilities are not reflected;
- Formally recognised sources of revenue are unpredictable;

7.3.3 Planning

- The absence of a long-range Comprehensive Development Strategy for the municipality is a problem in that there is no clear framework for future development or a vision statement, growth projections, land use policies and guidelines, projection of infrastructure development, social or economic needs;
- Existing infrastructure is inadequate, such that in all of the three RTs, population pressures have increased substantially without a comparable increase in infrastructural capacity. The result is significant problems with water, sanitation and electricity supplies;
- Lack of accurate mapping and GIS systems precludes effective planning;

- As a result of unpredictable annual revenues, long-term planning at the local level is adversely affected.

7.3.4 Human Resource Capacity

- There has been a lack of on-the-job experience to test and implement the considerable theoretical training that has been received by local governmental representatives;
- There is a lack of public awareness and knowledge of individual rights with respect to participation in local government is considered a capacity gap;
- A lack of coordination between the two parallel systems of local government undermines coordination and efficient utilization of scarce resources.

7.4 Preliminary Capacity-Building Programme Focused on the SIRT

There are a number of important initiatives that are recommended to address the institutional/legal/planning barriers identified above and in Section 3.5. These include the following:

- Roles and responsibilities of the LEA and the baladiyyas must be defined in the interests of transparency of decision making and public clarity as to who is responsible for the range of local services. As a result of the extensive overlap that is permitted under current law, this task will likely need to be undertaken on a RT by RT basis;
- An initiative should be included to support collection of taxes and other revenues that fundamentally affect the ability of municipal government to function properly. This need may entail tax/fiscal mapping as indicated above;
- Baseline mapping will be needed to provide a basis for planning and could/should ultimately encompass both a real estate and fiscal cadastre;
- LEAs should be supported to have stronger relationship with their constituencies through support in communications and incorporation of feedback from the community into their activities;
- Government entities (e.g., MOED) should be enrolled in support efforts to get local NGOs registered, as a logical step in supporting the LIF and development of local partners to strengthen planning and implementation of the SIRT and other initiatives over the longer term;
- A programme should be developed to strengthen rental/other income generating potential on municipal lands;
- MOED and LEA personnel should be a part of a participatory process to identify high priority infrastructural needs of the community;
- A participatory monitoring, evaluation and reporting process should be instituted at the local level as far as the SIRT is concerned involving all local government partners and participants, in order to increase the legitimacy of government to the public;

- Agencies such as IFES, ARAN and GTZ, which have been involved in municipal strengthening, should be consulted during preparation of training modules to ensure complementarity and to build on existing strengths;
- Emphasis should be placed on a 'learning by doing' approach in order to convert theoretical knowledge into practical application;
- Linkages between the participating RTs' LEAs and baladiiyas should be encouraged and enabled to promote transfer of ideas and increased communications and cooperation.

In addition to these process-related recommendations, several training initiatives will be incorporated into capacity building and undertaken through a team of local and international specialists. Following from the issues described above, the following table presents a preliminary Capacity Building Matrix for the SIRT, in which recommendations for capacity building address the needs of the MOED, LEAs, Baladiiyas, Mahala Komitesis and communities (via the LIF).

Table 7-1: Preliminary Capacity-Building Programme: SIRT

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
1. MOED MO-1: Project and Financial Management, Planning, communications	Management and staff of MOED national and RT offices	Local and international specialists	Topics: project cycle, ADB requirements, needs assessment, planning and design, implementation, monitoring and evaluation <u>Timing</u> : at project start-up <u>Delivery</u> : workshop 3 days, 8 sessions (1 per town); on-the-job follow-up;	Included in other items below
2. LEA L1. Local Governance	Management and Staff of LEA	Local and international specialists	<u>Topics</u> : public consultations, community mobilization, accountability, and transparency. <u>Timing</u> : at project start-up <u>Delivery</u> workshop 3 days, 8 sessions (1 per town); on-the-job follow-up	\$30,000
3. Baladiiya				

Table 7-1: Preliminary Capacity-Building Programme: SIRT

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
B1. Local Governance	Chairperson, councillors and staff	Local and international specialists	To combine with LEA	0.00
B2. Management	Chairperson and councillors	Local trainers and PIU staff	<u>Topics:</u> project cycle, ADB requirements, needs assessment, planning and design, implementation, monitoring and evaluation <u>Timing:</u> at project start-up <u>Delivery:</u> workshop 3 days, 8 sessions (1 per town); on-the-job follow-up; shadowing PIU staff	6,000
B3. Financial Management	Chairperson, Budget and Finance Commissioners and staff	Local and international specialists	<u>Topics:</u> commercial accounting system, annual financial statements, financial projections, budgetary procedures, tax assessment <u>Timing:</u> within the first year <u>Delivery:</u> workshop 5 days, 8 sessions (1 per town); on-the-job follow-up; shadowing PIU staff	45,000
B4. Procurement	Staff responsible for procurement	PMU staff	<u>Topics:</u> ADB requirements, Azerbaijan requirements <u>Timing:</u> at project start-up <u>Delivery:</u> workshop 2 days, 8 sessions (1 per town); on-the-job follow-up; shadowing PIU staff	0.00
B5. HR Management	Chairperson and councillors; Managers and supervisors; HR department	International specialists	<u>Topics:</u> recruitment, management styles, leadership, motivation, performance review, time management <u>Timing:</u> within first year	30,000
B6. Management Information System	MIS department manager and	PMU/PIU staff and MIS		4,000

Table 7-1: Preliminary Capacity-Building Programme: SIRT

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
B7. Computer Training	staff	specialists	<u>Delivery:</u> workshop 3 days, 8 sessions (1 per town); on-the-job follow-up; shadowing PIU staff <u>Topics:</u> enhancing existing MIS, PPMS, computerizing MIS <u>Timing:</u> ongoing for life of project <u>Delivery:</u> workshop, on-the-job training, technical assistance, shadowing PIU staff	2,000
B5. City Development Plans	All as required	Local specialists	<u>Topics:</u> software applications <u>Timing:</u> within the first year <u>Delivery:</u> workshop, on-the-job follow-up	0.00
B9. Chairperson Meetings	Chairperson, councillors and staff as required	International and local specialists	<u>Topics:</u> creation of city development plans for 5 towns, mapping of municipal properties <u>Timing:</u> within the first year <u>Delivery:</u> workshops, on-the-job training, technical assistance	5,000
B10. Staff Exchange	Chairpersons	Self	<u>Topics:</u> sharing of experiences, problem solving <u>Timing:</u> ongoing for life of project, semi-annually <u>Delivery:</u> staff exchange	10,000
B11. Regional Study Tours	Staff	Baladiiyas	<u>Topics:</u> sharing of experiences, problem solving <u>Timing:</u> ongoing for life of project, every quarter <u>Delivery:</u> staff exchange	65,000
B12. Equipment Provision	Chairperson, councillors, and staff as appropriate	Other countries	<u>Topics:</u> viewing alternative approaches, problem solving	200,000
	All	PMU		

Table 7-1: Preliminary Capacity-Building Programme: SIRT

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
B13. Vehicle Provision	All	PMU	<u>Timing:</u> ongoing for life of project, 1 trip per year <u>Delivery:</u> 1 person from each Baladiya per year for 1 week <u>Topics:</u> office furniture, office equipment, computers, software <u>Timing:</u> project start-up <u>Delivery:</u> procurement and installation	160,000
B14. Women's Participation	Community	Community Development Specialist	<u>Topics:</u> vehicles <u>Timing:</u> project start-up <u>Delivery:</u> procurement <u>Topics:</u> common areas, utility supply, waste management, parking areas, apartment extension, operation and maintenance <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 2 days, on-the-job training	0.00

Table 7-1: Preliminary Capacity-Building Programme: SIRT

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
4. Mahala				
M1. Mahala Operation	Committee members	Local and International social and community development specialists from PMU and PIU , local specialists	<u>Topics:</u> community mobilization, public education, operation of organization, establishing relationships, member involvement, relationship with Baladiyas and LEAs <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 3 days, on-the-job training	8,000
M2. Project Management	Committee members	Local and International social and community development specialists from PMU and PIU , local specialists	<u>Topics:</u> project cycle, ADB requirements, needs assessment, planning and design, implementation, monitoring and evaluation, financial management <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 3 days, on-the-job training	8,000
M3. Mahala Formation	Committee members	PMU/PIU staff	<u>Delivery:</u> workshops 3 days, on-the-job training for 10 Mahalas X 8 towns <u>Topics:</u> community mobilization, public education, operation of organization, establishing relationships, member involvement, relationship to Baladiyas and LEA <u>Timing:</u> ongoing throughout life of the SIRT for 4 Mahalas	1,000
M4. Women's Participation	Community Members	Community Development Specialist	<u>Delivery:</u> workshops 3 days, on-the-job training <u>Topics:</u> common areas, utility supply, waste	0.00

Table 7-1: Preliminary Capacity-Building Programme: SIRT

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
			<p>management, parking areas, apartment extension, operation and maintenance <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 2 days, on-the-job training</p> <p><u>Topics:</u> common areas, utility supply, waste management, parking areas, apartment extension, operation and maintenance <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops, technical assistance</p>	
4. Community Groups				
C1. Proposal Preparation	Community group leaders	PIU LIF staff	<p><u>Topics:</u> ADB/LIF requirements <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 1 day, technical assistance</p>	0.00
C2. Group Organization	Community group members	PIU LIF staff and local specialists	<p><u>Topics:</u> registration, community mobilization, public education, operation of organization, establishing relationships, member involvement, relationship to Mahalas, Baladiiyas, and LEA <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> workshops 3 days, on-the-job training</p>	5,000
C3. Project Management	Community group leaders	PIU LIF staff	<p><u>Topics:</u> ADB/LIF requirements <u>Timing:</u> ongoing</p>	0.00

Table 7-1: Preliminary Capacity-Building Programme: SIRT

Capacity Building Activity	Target Group	Capacity Building Provider	Description of Activity	Cost of Activity
C4. Technical Subjects	Community group members	PIU LIF staff and local specialists	throughout life of project <u>Delivery:</u> workshops 1 day, technical assistance <u>Topics:</u> related to the specific micro-SIRT (as required) <u>Timing:</u> ongoing throughout life of project <u>Delivery:</u> technical assistance on-the-job	5,000
C5. LIF Operations	LIF staff	PIMU LIF Consultant	 <u>Topics:</u> Orientation to LIF, LIF staff responsibilities, training of trainers <u>Timing:</u> at project start-up <u>Delivery:</u> workshops 3 days, technical assistance, and on-the-job training	0.00
5. Other O1. HRD, OD, and Infrastructure to be determined during project inception and implementation	To be determined	To be determined	To be determined	216,000
				<hr/> \$800,000 Total

As shown on the Table, there will be six primary targets for capacity-building for the SIRT:

1. Ministry of Economic Development

The SPPRED and local MOED representatives in the RTs will receive on-going support and capacity building, among others, in the areas of project management, urban planning, GIS, community animation and consultation, procurement, monitoring and evaluation, etc.

2. Local Executive Authorities

LEA representatives, as envisaged, will participate, with other groups, in training programmes in the areas of local governance, addressing such topics as: public consultation, community mobilization, accountability, and transparency. Because of their strength and importance they will need to be involved in many aspects of infrastructural planning and development. The precise nature of the capacity building in which they participate will be determined once the participating RTs and associated projects components are finalized.

3. Baladiiyas

As defined earlier in this Section, the baladiyas are envisaged as playing a direct and primary role in the management and implementation of the SIRT. Baladiya strengthening programmes will address the following subjects:

- Local governance;
- Project management;
- Financial management;
- Procurement;
- Human resource management
- Management information systems;
- Computer training;
- City development plan preparation;
- Mahala formation and animation;
- Meeting management;
- Communications/staff exchange;
- Regional study tours;
- Women's participation;
- Equipment and vehicle provision.

The table sets out the full range of topics, timing and type of capacity building.

4. Mahalas

Strengthening programmes will address the following subjects:

- Mahala operation;
- Project management;
- Operating a new mahala;
- Women's participation;
- Management information systems.

They will be provided with training on aspects municipal government and on the operation of a community-based organization. During project inception and implementation, should clusters of Mahalas be identified or established in response to the SIRT component, they will be provided with required training and equipment.

5. Community Groups

See Section 6 and Annex M for a discussion of capacity-building for the Local Initiatives Facility.

6. Other

There may be other groups identified as requiring support as formulation of the SIRT progresses. These could include, for example, NGOs or CBOs other than the mahala komitesi, or other parts of the LEA.

7.5 LIF Training and Capacity-Building

The targets of the training and capacity-building process, which is described in the CPIC in Section 6 and in Annex M, are the following:

- LIF staff, including the LIF coordinator in the central PMU;

- CG leadership;
- CG LIF Committees;
- CCCs (see Section 6.4, Project Management and Institutional Arrangements).

Over the course of the seven steps of the CPIC, capacity-building/training will involve several different forms of support, including: information and resource material preparation and dissemination; meetings; workshops; individual and group training; "learning-by-doing" and policy and planning processes, etc. Capacity-building and training will address the numerous subject areas required to enable LIF project implementation through all of the Steps, including but not limited to: CG organization and management; participation and consultation; proposal writing; detailed sub-project preparation; contracting and procurement; MIS; finances/ bookkeeping; monitoring and evaluation, operations and maintenance, social and environmental impact assessment, etc. It is envisaged that the capacity-building/training Part will be contracted out to a private entity (or, in the alternative, one per RT), which will be supervised by LIF staff in each of the Regional Towns (see below).

As shown in the CPIC (see Figure 6-2 and Annex M), training and capacity building occurs continuously through the seven Steps of the CPIC process and is absolutely critical to the success of the LIF, given its emphasis on a participatory, community-driven approach.

It is envisaged that Local Facilitation Consultants (LFCs) will be contracted through a tendering process (see Section 6.4). Training and capacity building will be developed by the LFCs and provided to, several different groups including:

- LIF RIU Staff;
- Community Groups (CGs), including leadership and the CGs' LIF Committees;
- Community Coordination Committees (CCCs);

The LIF will engage an outside consultant to train/provide capacity building to the LIF Coordinator in the PMU, if required. In order to assure a highly open and participatory process, the work of the LFCs will be provided on a regular, at times even daily basis, to CGs. Such support will take many forms, including: information meetings; workshops and seminars; on the job training/learning by doing' training.

Capacity building and support will address decision-making; consensus-building; project management; procurement; bookkeeping; participatory monitoring and evaluation; report preparation; operations and maintenance planning; budgeting, etc.

The LFCs will act in partnership with community groups as the implementing bodies. The quality of their work will be monitored and overseen by LIF RIU staff, as well as the Regional Coordinator (see Section 6.6, Project Monitoring and Evaluation.)

7.6 Training/Other Actions Needed to Strengthen Local Self Governance

Based on findings to date and the review of the activities of other international and local donors/actors, there are a number of additional capacity-building efforts that will be required to strengthen the ability of the local governmental structures in Azerbaijan to function effectively, as cited below:

- **Real estate/land cadastre upgrading:** Land values currently do not reflect true market value. Not only does such a system have a detrimental impact on land use, and infrastructural planning, but it impedes creation of an effective fiscal cadastre and taxation system. Because local governmental revenues depend, in considerable part, on land taxes, an improved cadastre system could help to strengthen local government's solvency and capacity;
- **Tax mapping:** Associated with the cadastre is the need for tax mapping as pointed out earlier in this section. Such mapping would be an important capacity-increasing initiative, as it would provide municipal government with a tool to increase its tax assessment/collection;
- **Tax collection:** Considerable capacity-building is required to improve the ability of municipalities to collect the taxes to which, under the law, they are entitled, and on which they depend. Such capacity may take the form of increased number of tax collection personnel; tax mapping/improved cadastre as per above; a sustained communications programme to inform the public of the intended productive use for the taxes;
- **Land and fiscal management:** Many municipal governments are selling off their land assets to meet immediate financial emergencies. Capacity-building support is needed, "on the job" to assist baladiyas to find alternative sources of funds, and/or to be able to borrow against the land/find other means, to finance their activities and ensure financial sustainability;
- **Land transfers:** Baladiya staff need to be strengthened to lobby LEAs and the national government for transfer of lands to which municipal government is entitled (e.g., in Barda, land transfers have not been fully completed);
- **Solicitation of Funding from Central Government:** As mentioned earlier, there are national government funds that are earmarked for municipal use, but which municipalities find difficulty accessing. Capacity building should take the form of identifying these potential sources of revenues and training local personnel to pursue and obtain these funds;
- **Clarification of Roles and Responsibilities:** As Section 3.5 has described, there is considerable overlap between LEAs and Baladiyas, which, in the long run, will impede both the efficiency and effectiveness of local governance. Moreover, this situation is inconsistent with the Council of Europe's requirements that local government have autonomy. Considerable and sustained capacity building within both the LEAs and baladiyas is required, perhaps on a RT by RT basis to begin with, to facilitate a process of discussion and negotiation regarding powers and related funding and staffing. Strengthening is required at the national level to rationalize laws which create ambiguity regarding municipalities' roles and responsibilities and sources of revenues, vis-à-vis the LEAs;

- **NGO registration:** Municipal governmental capacity could be increased to enable it to lobby for, and support registration of, local NGOs/CBOs. Without such registration, community groups are constrained as far as the scope of their activities are concerned, and yet their functioning is important to local self governance;
- **Awareness building among the public:** Local governance is very new to the country. Stakeholders consulted during the PPTA appear to have very limited expectations of local government and do not fully comprehend its importance, particularly when it already has a parallel, executive governmental structure at the local level. Capacity building in the form of development and delivery of an awareness-building programme to the public to inform them of the gaps which baladiyyas can fill, is important;
- **Mahala Komitesi formation:** Throughout the country there is still considerable work to be done to create and ensure sustainability of block communities, to look after their own social infrastructure, and other (e.g. cultural/recreational) needs. These entities are showing very positive signs of becoming important, participatory community institutions that are a highly desirable and needed base for effective local self governance.

8.0 Initial Environmental Evaluation

8.1 Environmental Impact Assessment Procedures

8.1.1 Standard Procedures of ADB

The activities proposed through the PPTA should be compliant with environmental assessment procedures of both the ADB (for Project Loans) and the Government of Azerbaijan. A brief description and comparative analysis of these procedures is provided below.

Standard ADB procedures for environmental assessment of proposed projects are based on categorization of project by type and extent of environmental impact. Projects fall within one of three categories, and different assessment procedures and requirements are applied to each category.

- Category A: Projects in this category typically require a full EIA procedure, as they may lead to significant negative environmental impacts, including major change in land use, physical, and biological environment, or negative impact to public health in the surrounding area;
- Category B: Projects in this category require Initial Environmental Examination (IEE) procedures, involving a process of environmental screening that is effectively a simplified and shortened version of an EIA as prepared for category A projects. The difference between these two categories is often one of scale (i.e., category B projects could be of similar nature, but smaller scale, than category A projects, and not located in environmentally sensitive areas. Most of negative impacts of such projects may be avoided through adequate mitigation measures;
- Category C: Projects in this category are not likely to generate any significant negative environmental impacts, and do not require detailed environmental appraisal. However, a summary of possible short- and long-term impacts is required, as well as identification of appropriate mitigation measures.

8.1.2 Standard Requirements of Government of Azerbaijan

Environmental assessment procedures of the Government of Azerbaijan are based on the "Law on Environmental Protection". Responsibilities for execution of the provisions of the law lie with the Ministry of Environmental Protection and Natural Resources (MEPNR). Under this Law, all investment projects, regardless of the source of funding and ownership, need to receive the approval of the "State Environmental Expertise" (a division of the MEPNR). The purpose of the "State Environmental Expertise" is to review and approve relevant EIA reports for proposed projects.

There is no classification of projects according to the severity of potential impacts, and there is no standard format for an EIA report. However, comparison between general requirements of the impact assessment and measurable parameters for the EIA/IEE report as laid down by the ADB and EIA requirements of the Government of Azerbaijan (stated in the EIA requirements, UNDP/MENR⁶⁹, 1996) demonstrate similarities and the adequacy of the ADB procedures to satisfy GoAz requirements. It is proposed that for all subprojects, EIA/IEE reports will be prepared, and submitted for approval of both

⁶⁹ MENR is the former State Committee on Environment and Control of the Nature Use

ADB and Government of Azerbaijan (State Environmental Expertise) in accordance with the requirements of the ADB.

8.2 Environmental Impact Assessment of Social Infrastructure for IDPs and Vulnerable Populations (SII)

8.2.1 Rationale

Environmental evaluation of the proposed loan funded project of ADB and Government of Azerbaijan is currently limited to assessment of the SII, which is focused on construction of new appropriate housing and clearing a number of secondary schools in three towns that are currently been inhabited by IDPs. The SII will provide in total housing for 814 families who are currently occupying (fully or partly) 36 schools, as summarized in the following table:

Table 8-1: SII - Summary

Town	Number of IDP Families	Number of IDP Persons	Number of New Apartments/Buildings	Number of Schools Cleared
Mingechevir	300	1169	300/5	10
Barda	396	1279	408/7	8
Sumgayit	118	467	120/2	18
Total	814	3912	828/14	36

Under the current PPTA, the present state of the schools occupied by IDPs was assessed and alternative land sites evaluated. Assessment of the environmental impacts of the proposed SII was conducted⁷⁰. In general, the background environmental situation of the towns Mingechevir and Sumgayit is heavily influenced by the operating industries. Unlike these two, Barda is at the centre of a rayon with a dominant agricultural economy. No significant industrial assets are located in the town. Improvement of major utility services and reduction of industrial pollution loads in any of the study area towns are beyond the scope of the proposed PPTA. However, the aim of the current study is to determine the most environmentally friendly locations within the borders of the selected towns, and assure that all potential negative impacts of the new constructions are properly mitigated.

The engineering solutions for the proposed housing (use of septic tanks, metering, use of local construction materials, etc) are in harmony with overall national strategies⁷¹. The summary IEEs for these subprojects - which fall within categories B and C - will be prepared in accordance with ADB Environmental Assessment Guidelines, 2003.

8.2.2 Present Situation and "No Action" Scenario

The SII is targeted at IDP families who are currently residing in secondary schools in the towns of Mingechevir, Barda, and Sumgayit. Currently, these families live in

⁷⁰ A brief review of the environmental background situation of the selected towns is described in the Annex U: Background Environmental Situation.

⁷¹ See Environmental Action Plan for Republic of Azerbaijan, WB/GOAz, 1996.

schools while sharing the buildings with ongoing education activities, and these conditions create mutual damage for the education process and the IDPs living environment.

The typical state of the schools occupied by IDPs can be summarized as follows:

1. Building - All the school facilities, occupied by IDPs, such as classrooms, corridors, sport, conference rooms, canteens, are partitioned off by temporary materials and curtains;
2. School territories - Most of the school yards are also adjusted by IDPs for their domestic needs, including illegal constructions, animal shelters, gardens, and storage of wood sites to parking lots, etc.;
3. Water supply and sewerage – In some schools, water is available in the building, usually in the toilet areas. These rooms are also connected to centralized sewerage. Both the water supply and sewerage mains are highly deteriorated, and do not function on a regular basis. In other schools, water is only available in the yard, and the schools are not connected to the sewerage mains;
4. Sanitation and personal hygiene practices - In the schools that are not connected to water supply and sewerage mains, usually off-site sanitation is developed through pit latrines. In selected schools, assisted by international organizations, flush latrines outside of the building are available along with separate bath houses. Laundry is carried on in the same living buildings. For schools not connected to the sewerage system, the grey waste water is disposed of in the yard;
5. Livestock - On most of the school yards animal shelters are constructed. Typical livestock includes poultry, sheep, and cattle;
6. Transport vehicles – Many abandoned vehicles, including freight vehicles, are often parked in the school yards, occupying the areas of the play ground, sport sites and school gardens;
8. Energy use - There is an abundant number of illegal/improper connections to the electric mains inside, as well as outside, the school buildings. Food is cooked in the corridor on electric or diesel fuel fed stoves. In winter, the heating is based on electric heaters or wood burning stoves. In extreme cases, used tires might be used as a fuel;
8. Deforestation – Virtually no vegetation is remaining on occupied school sites;
9. Hazardous materials - As all IDP families store food in the rooms, and the school territory is often a place for open dumping of solid wastes, rodents are common. The health authority (Town Center of Epidemiology and Hygiene) provides regular prevention measures and spreads rat poison. Also some IDP families store in their rooms such inflammable materials as petrol or diesel fuel. Liquid Chlorine is also stored in unsafe conditions in the living places (it is widely used in the country for domestic disinfection purposes);
10. Solid waste management - The waste is supposed to be collected from the school yard on a regular basis by Municipal Services. In reality, the collection services in most of the schools operate on an ad hoc basis, or are completely

lacking. Very often the wastes are dumped on the school territory, and then burned.

In all visited schools, the conditions are not suitable for either living or educational purposes: The lack of basic amenities, unsanitary environment and social tensions are harmful for both the IDP community and the education process.

8.2.3 Positive Environmental Impacts Anticipated

The aim of the proposed SII is to provide new appropriate housing to IDP families, currently living in unacceptable conditions. As discussed further in other report sections, the improvements will result in provision of individual apartments for each family and improved access to utility services related to water supply, sewerage, electricity, gas supply, and solid waste management. On-going maintenance will be directed, to ensure that suitable living conditions are sustained. This will result in much improved environmental conditions, improved personal hygiene and improved social climate for the affected IDP communities and students.

8.2.4 Screening of Alternative Land Sites

The land sites were proposed by the town Chief Architects, on behalf of the LEAs. The acceptance of the sites was assessed by the social, engineering and environmental teams of the SII. The final screening of sites was done as a result of social, engineering, environmental, institutional/legal analysis. In total, fourteen sites were proposed for assessment in the three SII towns, including five sites in Mingchevir, six sites in Barda, and three sites in Sumgayit.

A description of the sites is included in Annex K. As the towns of Mingchevir and Sumgayit are industrial centres, they are characterized by dense population settlement patterns and most of the households live in hi-rise apartment blocks. In Barda, about 80% of population live in private housing. Therefore, Barda offered the largest choice of alternative sites. The sites vary from open, clear space to areas of uncompleted capital construction that were initiated at the end of the soviet era. The process of screening of potential environmental impacts and identification of mitigation measures was applied to the selection of eligible sites. The sites were screened for such parameters as: exposure to pollution; land ownership rights; damage to green areas; need for any resettlement; and risks of creation of social inadequacies.

The detailed tables of site screening are presented in Annex K, Tables K-1, K-2, K-3.

Exposure to the long term pollution sources was investigated in the field and discussed in consultations with local branches of MEPNR. Sites in the area of impact of operating industries, railway lines and busy roads were screened out of the long list, to avoid costly mitigation procedures and because other preferable sites are available.

The need for resettlement was a screening criterion. Some of the sites that were considered are currently partially occupied by IDPs (e.g., separate houses built on Barda site No 1 and Barda site No 2, and occupied apartments in uncompleted blocks such as at Mingchevir site No 2). Involuntary resettlement in such cases is regulated by the Decree of the President #298 from 1 July 2004, On Approval of the State Program on the Improvement of Housing and Employment of Refugees and IDPs in the Republic of Azerbaijan. According to this Decree, areas occupied by IDPs for housing purposes during 1992-1998 can not be withdrawn by the state, unless repatriation or the provision of the new adequate housing occurs. If SII housing construction can not be implemented without resettlement measures, the site has been screened out, as the

mitigation measures in this case are beyond the scope of the SII and are under the responsibility of the State.

Potential land ownership conflicts were identified for some sites. Most of the proposed *open space sites* belong to the LEA, and can be easily transferred to the responsibility of the Baladiiyas for the use by the SII. *Uncompleted constructions*: existing foundations and uncompleted apartment blocks (i.e., Mingechevir site No2; Barda site No1) belong to the State at the level of the Ministry of Economic Development (MOED); foundations and uncompleted buildings of schools (Barda site No 2) belong to the Ministry of Education (MOE). Providing all official procedures are followed, no problems of transfer of these land sites to the Baladiiyas for the use by the SII are envisaged, as these assets are highly deteriorated and their current value is low. Problems of land transfer resulting in the screening out of the site might be found with regard to the territory of operating educational institutions not covered by the proposed resettlement program (i.e., cases of Boarding School (Barda site No 3) and Agricultural Technical School (Barda site No5)). In addition to the legal procedures, liquidation of uncompleted constructions will create additional costs for the housing construction. Other sites that were screened out on the land ownership criteria include sites: Barda site No 4 (operating water headworks of the railway) and Mingechevir site No 5 (land under an agricultural rent contract). The original inclusion of these sites in the long list can be explained by the lack of recent Land Cadastre of these towns;

Social conflicts may develop due to new housing being constructed for some IDPs in an area already inhabited by other IDPs who are expected to continue to live in substandard conditions. Because of this criteria, some sites were abandoned (i.e., Sumgayit site No 2, Barda site No 3, Barda site No5 and Mingechevir site No 1). Other social concerns might be related to destruction of the fruit gardens (including the gardens that are not officially registered with the land use authorities) of local residents for the purpose of the new housing construction. These gardens are part of the household economy, and their demolition will generate a negative perception of the new housing initiative among the local community (i.e., Mingechevir site No 4);

Potential damage to green areas (recoverable and non recoverable). There are two types of potential impacts that could occur as a result of the proposed construction: a) where recovery is possible: where there are limited numbers of trees present on the site that will be affected by the construction but will be replaced as part of the external works and as part of the associated mitigation measures; b) where larger green areas will be destroyed by the construction and cannot be recovered within the same area: in this case, recommended mitigation measures will include partial replanting of trees and other vegetation where possible.

8.2.5 Selected Sites

As a result of screening of the sites (Annex K, Tables K-1, K-2, K-3), the following sites were selected for the use by the SII:

1. Mingechevir site No 3 (with Mingechevir site No 2 as a second choice option);
2. Barda site No 2 and Barda site No 6; and
3. Sumgayit site No 3.

8.2.6 Potential Environmental Impacts & Mitigation - Design

The following possible issues should be considered and addressed as necessary during SII design:

1. **Unfavourable geology of the area:** can influence the sites, which are in the area of shallow ground water, resulting in:

- flooding of the housing in the future;
- water logging; and
- settling of the soil and foundation.

This can be mitigated by the high accuracy of pre design investigations, carried out by experienced licensed local geological investigations companies, under coordination of PMU.

2. **Overestimated capacity of the existing infrastructure systems:** water supply, sewerage, gas supply, electricity, public transport routes, etc., capacities can be overestimated, leading to the shortage or lack of the utility services for the proposed housing.

This can be mitigated by the accurate planning of the new demands at the design stage in coordination with all service providing companies. Responsibility lies with qualified local licensed engineering companies, hired for detailed design works, under the coordination of the PMU and Baladiiyas.

3. **Overestimated capacity of the social infrastructure:** After moving into new housing IDP families may lack sufficient education and health care services in the area.

Mitigation measures at the detailed design stage will include adjustment of the available social infrastructure to the new demands. Responsibilities lie with the qualified licensed engineering companies, hired for detailed design works, under coordination of the PMU and Baladiiyas.

4. **Use of environmentally unfriendly technologies and materials for the new housing:** Design of autonomic central heating systems, based on the use of crude oil or diesel fuel, will act as a new source of ambient air pollution. This will be mitigated by the use of alternative electric heaters for the proposed housing. The SII will use certified environmentally friendly construction materials. Responsibility lies with qualified licensed engineering companies, hired for detailed design works under coordination of PMU and Baladiiyas.

8.2.7 Anticipated Environmental Impacts & Mitigation - Construction

1. **Air and noise pollution generated at the construction site:** Regulation of air pollution will occur in accordance with the maximum allowed concentration limits in the country. Any air pollution will be short-term (during construction). Monitoring responsibilities are with the local Branch of the MEPNR. Noise pollution during construction and operation will be regulated by the state norms for noise protection. Responsibilities are with the Center for Hygiene and Epidemiology of the MOH.
2. **Temporary soil and vegetation damage:** Land re-forming and re-cultivation will be applied to the portions of soil and vegetation damaged or lost during construction as part of the building external works. These works will be part of

the civil works, supply and installation contracts. Control responsibilities lie with the PMU and Baladiiyas.

8.2.8 Anticipated Environmental Impacts & Mitigation - Operational

1. **Unsatisfactory state of municipal services:** The risk of the lack or shortage of utility services, such as: electricity, gas supply, water supply and sewerage due to consumer's debts and delayed payments must be assessed. Associated mitigation measures include regular monitoring of the state of the government guaranteed payments by the State Committee for Refugees and IDPs (SCRI) of Republic of Azerbaijan.
2. **Architectural changes of existing/partially constructed buildings:** A negative environmental impact may be associated with potential partitioning of the apartments using heavy construction materials (bricks, or local limestone blocks) that can lead to the destruction of the building stability and earthquake resistance. Construction of additional housing units on the roof, extended balconies, etc., may lead to damage of the original architectural structure. Mitigation measures include the control over the operation by the Baladiiyas.
3. **Potential illegal land use:** There is some risk of illegal occupation of the surrounding land around the new housing by the IDPs for various domestic and agricultural purposes. Associated mitigation measures include control and cooperation between the IDP community and the Baladiiyas on the land use issues, and development of sound municipal land use plans with enforcement of the regulations.

A summary of the potential negative impacts due to location of the accepted site, design, construction and operation stages is contained in Annex V: SII - Summary Anticipated Negative Environmental Impacts.

In general, it can be stated that **the SII will have a net positive impact on the environment** by improving the quality of life of the targeted IDP communities, developing existing urban areas, and mitigating all potential negative impacts.

9.0 Social and Poverty Assessment

9.1 Introduction

9.1.1 Overview

The Poverty and Social Assessment (PSA) has been carried out with a focus on the Social Infrastructure for Internally Displaced Persons (SII) (in Mingachevir, Barda and Sumgayit) and the Local Initiatives Facility (LIF) of the PPTA, as described in previous sections. Additional social assessment work will be required at a later date related to the Social Infrastructure for Regional Towns (SIRT).

The current phase of the PPTA has been specifically designed to improve the living standards for IDPs and vulnerable population groups in Mingachevir, Barda and Sumgayit, increase access to affordable social infrastructure for these, and strengthen capacities of local government and community groups to address such social infrastructure needs. As such, **it is directly aimed at providing social benefits to the IDPs** and other vulnerable local community residents who are also under duress as a result of the many years of conflict, economic collapse, the results of flawed privatization processes, and numerous other factors (see Annex X: Summary Poverty Reduction and Social Strategy).

9.1.2 The Problem

The problem that is being addressed is extensive, multi-faceted and complex. A number of factors since 1990 have contributed to high levels of social and economic deprivation throughout much of Azerbaijan. These have included the break-up of the Soviet Union, a highly flawed privatization process, economic collapse and the Armenia-Azerbaijan conflict over Nagorno Karabakh, which has led to the dislocation of hundreds of thousands of IDPs who have overwhelmed cities and regional towns. As discussed later in this report section, official statistics place poverty levels in excess of 40%, as a result of loss of employment, illness and disability, aged nature of the population, lack of investment and other factors. Among some of the most vulnerable population groups, including the elderly and single-parent (usual women) families, poverty exceeds 60%. Stakeholders agree that actual numbers are likely much higher. The most vulnerable include a cross-section of IDPs, refugees *and local residents*, all of whom share similar levels of hardship. Unemployment is endemic following the closure of most Soviet-era industry and is considered the biggest overall issue. The conditions experienced over the past 15 years have created an array of extremely poor living conditions for a high percentage of the population, many of whom are living in overcrowded single rooms in old dormitories, schools, abandoned hotels and other public buildings or dilapidated apartments that have not been maintained for over a decade. Infrastructure is crumbling, resulting in poor water, sanitation, and ventilation conditions in many cases. Social conditions are noted to be fragile in many locales and urgently require visible interventions, preferably through local self-government, to demonstrate that change is possible.

9.1.3 Solutions Proposed within the Project

Project activities have been designed to address the problems of the people and the needs directly expressed by the stakeholders, as described below. The SII is important as it will directly address two of the most urgent issues and needs that have long been recognized by the government and the international community, and that have also been identified as priorities by the key stakeholders, namely:

- reclamation of a number of occupied schools in secondary towns; and
- provision of improved housing and infrastructure for many IDPs.

The LIF, as described in Section 6, will provide many opportunities for local communities to help themselves by applying for funds for a range of different projects and implementing them. Capacity-building initiatives also have many implications for the community at large, as described elsewhere in the report.

As outlined in Section 4, the SII will result in immediate benefits to some approximately 814 IDP households in three towns, who will be relocated from the secondary schools into new housing. It will also directly benefit several thousand students, who will benefit in the immediate future and for many years to come as a result of rehabilitated school facilities.

It will complement the poverty reduction efforts in Azerbaijan and the regional towns included within the project, by producing benefits related to health, education, income generation, community and infrastructure development and others, as discussed below.

9.2 Objectives and Methodology

9.2.1 Objectives

The overall Goal of the PSA is to identify and assess the potential positive and negative impacts of project activities associated with the development of Social Infrastructure for Internally Displaced Persons (IDPs) (SII). The scope of the assessment encompasses both indirect (i.e., local communities) and direct (i.e., targeted project beneficiaries, including IDPs living in the schools and students) impacts. Specific objectives as defined in the Terms of Reference for the TA (Annex A) include the following:

- To report on socioeconomic and poverty conditions through primary and secondary data collection, and participatory processes;
- To predict the contribution of the project to poverty reduction efforts;
- To assess the impacts of the project, including willingness to pay, ability to pay and socio-economic benefits that will accrue to the targeted project population;
- To employ a participatory development approach in project design, implementation and monitoring and evaluation;
- To incorporate gender issues and assess measures that may maximize the project's benefits to women; and
- To consider social safeguards issues as appropriate in the context of the project, such as involuntary resettlement, ethnic minorities, labour and other risks/vulnerabilities.

9.2.2 Methodology

The study has been carried out in accordance with the guidelines of the ADB, including the Handbook on Poverty and Social Analysis, the Handbook for Incorporation of Social Dimensions in Projects, and the gender checklists for water and sanitation and urban development, among others. The overall methodology employed has been based on a qualitative, participatory rapid appraisal process, in accordance with the requirements of the Terms of Reference (TOR) and as described below. Quantitative social survey work was not undertaken during this phase of the work, given the requirements of the TOR, the fact that the study areas were not yet defined and the

exact nature of the project activities had not yet been established. The possibility of undertaking a quantitative survey as part of the SIRT, which is directed at the stakeholders in the eight regional towns, should be considered.

The PSA research tasks included the following:

- **Initial Poverty and Social Assessment (IPSA):** An initial assessment was carried out to flag poverty and social issues that required attention during the preparation of the PSA, including a needs assessment and preparation of a socio-economic profile for the study area(s). Following a stakeholder identification process, a qualitative participatory research programme was undertaken with key stakeholders/potential beneficiaries (including both IDPs and local residents) in three study area towns, to identify the people's main issues, needs and priorities. The initial participatory process included 45 household case studies, 12 gender-disaggregated focus groups, and approximately 25 key informant interviews in the three study area towns of Mingachevir, Barda and Sumgayit. An Interim Report was prepared to document the socio-economic conditions and poverty situation, and identify the likely scope of the interventions needed to meet the needs and project objectives;
- **Poverty and Social Assessment (PSA):** Once the priority projects were selected, based on the identified needs, additional fieldwork and interviews were undertaken with community members, school residents and authorities and local authorities to identify which specific sites would be the focus of the SII and what project typologies would be included under the LIF. The research and reporting has included: assessment of impacts associated with the projects; examination of willingness/ability to pay issues, as relevant; design of a participatory development strategy; gender considerations; assessment of any safeguards that may be applicable regarding minorities, involuntary resettlement, etc.. To reduce the possibility for overlap, to identify possible synergies with other initiatives and to identify "lessons learned" that could benefit the project, numerous interviews were also undertaken with key informants in Baku, including government representatives, donor and humanitarian/relief agencies and international NGOs (see List of Contacts in Annex). An extensive literature review of secondary sources was also conducted (see List of References in Annex).

9.3 Study Limitations

It is important to note that detailed and reliable data pertaining to much of the subject matter under discussion in this PSA report is not available, particularly at the municipal level. Existing statistical data has been presented as identified, but should be viewed with caution. State and local municipality figures are often very different, and key informants often dispute both sources of "official" information. The 2003 Labour Force Survey of the government, for example, has placed the unemployment rate in Azerbaijan at 10.7%⁷², while key informants throughout the country are in uniform agreement that this figure vastly underestimates the problem and estimate the real figure to be more than 50%.

The World Bank poverty reports and the SPPRED documents readily acknowledge that the lack of a sound data base represents a particular challenge in terms of addressing

⁷² SPPRED Progress Report, 2005, p.36.

poverty issues and in moving forward with the **Millennium Development Goals (MDGs)**. In fact, this is considered the main challenge in this regard:

"The main challenge...is the lack of a strong statistical base for setting baselines for targets, and also for defining sensible monitoring indicators. Discussion has continued and for most targets, preliminary agreements have been reached. However, the MDG process is proving useful in reinforcing the arguments in the country for the need to have a stronger statistical base for understanding and defining the policy priorities for the country. If we cannot have a clear and realistic picture of the baseline situation, how can we set realistic targets? What is the point of setting targets if we cannot monitor their achievement? The data problems are with the quality of the data collected (...particularly in the case of...employment [among others]); in other cases there is just a lack of regular data collection (e.g., quality of education)"⁷³.

9.4 Findings

9.4.1 Identification of Key Stakeholders

The stakeholder identification process that was undertaken early on during the PSA study identified those who would potentially be affected by the project in either positive or negative ways. Particular emphasis was placed on the identification of the "key stakeholders" - that is, the poor, excluded and most vulnerable groups - and their needs and priorities. The poorest and most vulnerable populations that were identified include the following:

- abandoned/widowed female-headed households;
- "lonely elders" who have no other family members;
- the unemployed and particularly households without any regular salary earner;
- IDPs;
- the ill and handicapped; and
- children and others in larger households.

Other stakeholders were also identified and consulted during the participatory process, including not only those who may be affected by the SII but also those who those who may be able to influence and contribute to it (e.g., local government authorities; local and international NGOS; community-based organizations; etc.). Extensive consultations were carried out with a range of these individuals and agencies, and many of them (i.e., municipal governments; other government agencies; Mahalas; local community groups; etc.) will also be targeted as beneficiaries of the project.

⁷³ Ibid, p. 16.

The stakeholder identification process has informed the selection of the project typologies, the design of the SII, and the development of a participatory process that will ensure incorporation of the target beneficiaries throughout the project cycle.

The project has been designed to focus directly on, and benefit, many of the stakeholders of all types, notably the most vulnerable as noted above. **No stakeholders are projected to be negatively affected as a result of the project.** Mitigation measures will be implemented to address any concerns, as required (e.g., provision of temporary educational facilities for children as school rehabilitation is carried out). Benefits of the project to the various stakeholders are discussed further in Section 9.5.3.

9.4.2 Socio-Economic Profile of SII Study Area Populations

Three study areas were selected to be included in the initial SII, including the municipalities of Mingachevir, Barda and Sumgayit. Descriptions of the towns, housing and infrastructure, etc., are included in previous report sections. Outlined below are brief socio-economic profiles for each of the target municipalities.

1. Barda

Demographics

As one of the urban areas closest to the front line of Nagorno Karabakh, Barda has one of the largest concentrations of IDPs in the country. While official data reports IDPs at just under 50,000, key informants consider the actual number (including unregistered IDPs) to be as high as 80,000. With a local resident population of 136,000, the concentration of IDPs represents some 27% to 37% of the overall population. Some 30% of the Rayon's local population (40,000), live in the urban area, while an estimated 35% of the officially registered IDPs (27,000) are also urban dwellers.

Most of Barda's local population (70%) are rural dwellers, while many of the IDPs live in temporary settlements located outside the town itself. In accordance with a Presidential Decree in July 2004, some 17,000 of the rural settlement dwellers (3,287 families) will be resettled using State Oil Funds by the end of 2009. **IDPs in the urban area remain a key social problem**, as there are no immediate plans to upgrade occupants to new accommodations. Therefore, the focus on regional towns, including the activities related to assisting the IDPs, is timely and important.

With regard to demographics, it is of interest to note that there is a more balanced gender ratio within the local population (50.7% women vs. 49.1% men) than among the IDP population (52.8% women vs., 47.2% men). The qualitative research among the IDPs indicated that many male heads of household have left Barda in search of work in Baku/Sumgayit, and abroad (Russia and Turkey), resulting in many de facto female-headed households.

Barda's age structure (including IDPs) likely contributes to the **particularly high incidence of poverty in the municipality** that appears to exist. As of May, 2005, only 37% of the population is between the ages of 15 and 49, constituting most of the active labour force, while 24% are under 15 years of age. Two out of

every five people (39%) are over 50 years of age, and many of these are elders who live on a pension of 150,000 manats⁷⁴, which is far below the poverty line of 194,000. As of May, 2005, the State Statistics Committee reported that of the 55% of the local people who are recorded as working (mostly as farmers), **62,663 of them or 83% are categorized as non-wage earners.** One key informant estimated that unemployment may be as high as 90% in Barda.

Employment and Income

Unlike Mingechevir and Sumgayit, which grew up as industrial centres, Barda is an agricultural region. In days past, Barda was one of the largest cotton producers in the former Soviet Union, generating 125 tonnes annually. Today production totals less one tenth of that. Most of the 19 factories and 8 construction offices have closed, post-independence, leaving 16,000 unemployed. Government is no longer a major employer. A few people are employed in the service sector and as teachers, nurses and doctors, and many people work in the active grey market. The Ministry of Economic Development reported that as of 2002, there were 72,200 working age persons, 69% of whom were employed and 5% of whom were registered at the unemployment office. Local authorities and key informants place the actual unemployment rate at a much higher level than the 31% indicated by the government figures.

Today, although its activities are much reduced, Barda remains a wholesale trading centre and agricultural region. The town appears to have some good social energy and entrepreneurial spirit at work that would recommend it as a place to be further considered for investment. The LEA representative cited the recent creation of 1,700 new jobs in the areas of sand and gravel, dairy products and services. It was noted that real opportunities exist to revitalize the cotton and other factories and to develop cotton-related value-added industries, as well as to produce the whole export quota of wheat allocated to Azerbaijan. **Projects such as irrigation and drainage projects are required to create favourable production conditions, which would help not just to stimulate the rural, but also the urban, economy.** The importance of the rural-urban link in Barda, and likely in many other secondary towns, cannot be overstated. Revitalization of the rural economy will be a critical factor in creating wealth and employment for both rural and urban dwellers. The issue of access to reasonable credits was a frequently cited need in Barda, especially as related to terms that are suitable for farmers.

Health, Education and Social Services

There are 16 hospitals and 48 medical clinics serving Barda. While doctors are in adequate supply, the equipment in clinics and hospitals is generally inadequate. An infectious disease centre was developed in the city centre to address the problems associated with the malaria and tuberculosis problems that arose as a result of the influx of IDPs. A major problem is related to the high number of invalids from the war and from work-related accidents.

The occupation of most of Barda's 73 schools is one of the most critical issues facing the municipality. The Oxfam-created local NGO, ARAN, completed a survey of IDP school occupation in several centres and found that **"the most extreme situation is seen in the Barda region, where 75.4% of the schools**

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State Statistics Committee, Barda Branch (2005).

host refugees and IDPs.⁷⁵ The school conditions that were observed by the study team were certainly among the worst observed anywhere in the country, with children studying in clapboard rooms adjacent to IDPs living behind suspended bed sheets, in buildings without proper lighting, ventilation or heating/cooling systems, and with observable pest infestations. Resolution of this situation is critical.

Social Organization

Social capital and organization in Barda was observed to be relatively good relative to the other study areas. Some 19 international and local NGOs have been working in Barda over the past several years, and these have clearly helped to build a solid base of community activity (see Annex C). Today there are a number of block associations registered under the local municipality (developed largely through the assistance of the ARAN and IFES organizations), and these are assuming the role that the previous municipal government "Zheks" played. In addition, there are several "Cluster" umbrella groups that have been organized to bring together the different communities to undertake larger projects. These organizations offer excellent potential with regard to providing support for, and being part of, the ADB project.

2. Mingechevir

Demographics

In 2004 the official local resident population of Mingechevir was reported to be 97,165⁷⁶, with 56.6% of the population of working age. In addition to the local residents, the State Statistics Committee reports an IDP/refugee population of 18,338 people⁷⁷ (representing almost 20% of the total population), although local authorities estimate the IDP population to be significantly higher. Household size in both populations is approximately 4.5. Out-migration has been common, although today anecdotal evidence suggests the population has stabilized, as those who were able to leave have already done so.

Demographically, it is of interest to note that there are many more adult women than men among the IDPs (5,066 women - 59% of labour force - compared to 3,560 men - 41% of labour force), highlighting the presence of many female-headed households, who are among the most vulnerable people in the community. The elderly population in Mingechevir - including both local residents and IDPs - is also considered to be a vulnerable group, particularly the growing segment of "lonely elders". Over 500 such persons are currently registered with local Service Sector for Pensioners, of which 72% are women, 19% are invalids and 15% are IDPs.

Employment and Income

In 1988, six large enterprises were operating in Mingechevir, including 21 industries, 16 construction companies and 19 trade and service companies.

⁷⁵ ARAN. Allocating Refugees/IDP at School Buildings Deprives Children from Education: A Situation Analysis (2003). p.7.

⁷⁶ Note: It should be noted that there are many discrepancies in the base data received from various sources, even among the "official" data used by different government agencies, although efforts have been made to use the most reliable and commonly referred to numbers.

⁷⁷ Note: Other figures report the real number to be much higher.

These employed some 28,500 people. Today only 16 of these are operating, most well below capacity, employing 6,300. In 1988, 42,400 persons were employed compared to approximately 20,700 today, representing some 40% of the "working age" population.

Official data from the State Committee of Statistics indicates that there are only 1,663 persons registered as being "unemployed" and only 64 are officially recorded as "receiving unemployment relief". Actual numbers are clearly much higher, according to all of the key informants; informants estimate that at least 50% of the total population is unemployed. Most people report that they work at casual labour and in the grey market to generate income, and most families are heavily reliant on government pensions paid to elders, the handicapped, primary school-age children, children/widows of war victims, etc..

No municipal-level statistics regarding household income levels were identified. Descriptions of income levels by interviewed stakeholders indicated that all of the IDP (and most of the local resident) households fall below the poverty line (see discussions below). While many or most likely do, it is also recognized that underreporting is common, notably due to the fact that most families are involved in grey market activities. While the SPPRED identifies the IDPs as "the most vulnerable group of the population"⁷⁸, interviewed local residents often stated that IDPs in fact are better off than many of them due to the fact that the IDPs are receiving food aid payments (30,000 manats/person/month) and subsidies for utilities. Access to credit is an issue for people in Mingachevir, who reported that although some micro-credits may be available, the terms are not realistic for them to take a risk.

Health, Education and Social Services

There are 8 hospitals in Mingachevir (1150 beds) and 15 clinics. Health conditions among the IDPs and many local people are very poor according to all key informants working in the sector. Respiratory and infectious diseases are common, due to the conditions the IDPs and many local people live under, characterized by overcrowding, poor air quality, lack of heating in winter, poor sanitation, etc.. Almost every family that was interviewed during the PSA included chronically sick and/or handicapped persons. Most families reported that one of the major problems they face in their lives is that they cannot afford to purchase the medications they need.

Mingachevir has 20 general education schools (18,540 students), 19 of which are occupied by IDPs. Stakeholders reported their satisfaction with the quality of teachers, but stressed the dire teaching conditions they, and the students, faced because of the occupation of schools by IDPs. **The occupation of schools and kindergartens is one of the most serious and important issues as identified by the stakeholders in Mingachevir.**

Social Organization

Overall social capital has declined in the town, as reported by all of the stakeholders. People generally reported that they have little trust in government or other agencies, except for some of the NGOs that they are aware of, such as World Vision and Save the Children. Most social interaction is contained within

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SPPRED, 2003, p.31.

the family unit, which tends to be very strong out of necessity. Only a few interviewees acknowledged that people in their buildings were organized, had leaders and carried out activities together.

3. Sumgayit

Demographics

The total population of Sumgayit in 2005 is reported in some of the official government statistics to be 357,107. This figure is reported to include approximately 60,000 IDPs and 30,000 refugees, who together are estimated to comprise about 40% of the city's population. The total numbers of IDPs are reported by the Local Executive Authority to be "more, in reality, because many who are living here are registered in other places". While official figures indicate that about 35% of all IDPs in Azerbaijan are in the Sumgayit/Baku area, various key informants and focus group participants indicated that the actual proportion may be 50% or greater, as so many heads of households and families have migrated from the interior in search of jobs.

Of the local population, "working age" people comprise 61% of the population, children 32% and elders 7%. The birth rate has dropped almost 50% since 1990 (i.e., 6,500 children born in 1990 compared with 3,049 in 2003), while deaths have increased 40% over the same period (i.e., 1,047 in 1990 to 1,400 in 2003). The IDP population is "older", comprised of 46% "working age" people, 32% children and 21% elders, likely reflecting the departure of many working age people in search of employment. The "lonely elders" among the IDP population are a noteworthy group, as elders comprise such a large portion of this population. Another particularly vulnerable group, as with Mingachevir and Barda, are women heads of households with children. There are reportedly 428 families in Sumgayit whose heads of households were killed in the war.⁷⁹

Employment and Income

Sumgayit was developed as an industrial city after WWII and many labourers were brought in from all over Azerbaijan to work in the factories, each of which employed 7,000 -10,000 employees. With the collapse of most of these, unemployment has soared during the 1990s and 2000s. Many people travel to nearby Baku to seek employment or work. Records of the local authorities indicate that there are 197 state enterprises operating in Sumgayit and 1,403 private sector businesses, employing 37,932 and 12,659 persons respectively. Only 847 people are officially registered as "unemployed" at the employment centres, and 191 are receiving unemployment benefits. The city reports 54,600 persons as the "average annual number of economically employed persons"⁸⁰, which would place the employment rate at some 25% of the entire "working age" population and unemployment at 75%. While no employment details were identified for the local population, the local authorities did provide data on the IDPs, indicating that 35% of them are employed, a figure refuted as "too high" by IDPs in focus groups and household case study interviews.

Health, Education and Social Services

⁷⁹ Interview with Sevindir Huseynov, Head, Sumgayit City Sector of State Committee for Refugees and IDPs, May 24, 2005.

⁸⁰ Note: Statistics from the State Committee of Statistics report figures much different from the local authorities', although key informants have stated that local data should be considered more accurate.

Sumgayit was reported to have 30 medical facilities including 7 hospitals, 5 clinics for children, several dispensaries and 2 maternity hospitals. There are some 5,000 staff and 1,200 doctors, 400 for each 100,000 population. A major problem reported by the Chief Medical Officer at the Local Executive Committee is that many of the IDPs are settled in hospital facilities and sanatoriums. While medical care is officially free of charge, in reality people report they have to pay. Many reported that a catastrophic illness will completely destroy a household's always tenuous financial balance.

Sumgayit has 46 general education schools that include 58,730 students. Many schools are occupied by IDPs in Sumgayit (695 households), and this is considered one of the major issues requiring urgent attention by local authorities.

Social Organization

Social capital and organization in Sumgayit is not reported to be strong. While there are some active block communities and leaders, most interviewed stakeholders indicated that they know of no such organizations and that people generally do not work together, but rather tend to focus only on family activities and income generation.

4. Summary

While an attempt was made to produce a summary table of demographic data for the three communities, this proved futile, given the discrepancies as discussed in the text above. Numbers provided by the different levels of government vary so widely that they are meaningless to compare. Barda appears to be the community most strongly affected by the influx of IDPs with, by the most conservative estimates, some 36% of the total population now comprised of IDPs (compared with approximately 16% in Mingachevir and 13% in Sumgayit). This is reflected in the fact that almost all the schools here are occupied.

Employment is low in all communities, with unemployment likely over 50% in all three locales, although people in Sumgayit appear to have access to more temporary employment and work in the grey economy due to their proximity to Baku. The SPPRED has estimated that some 70% of IDPs are unemployed. Social services are taxed in all of the areas.

Note on urban/rural dimension of settlement of IDPs: As noted in the discussions pertaining to Barda, as many as half the IDPs in that Rayon are living in the temporary settlements outside the urban area. These people will be the beneficiaries of new settlements/housing, as a result of the Presidential Decree, by the end of 2009. The urban residents in the three communities, however, are not the focus of this attention, and require particular attention. This can be provided through various means, including new apartment units or settlements, and/or, in the case of those residing in buildings like dormitories, by renovation/rehabilitation programmes. Such initiatives are the focus of the SI and LIF.

9.5 Poverty Analysis and Project Contributions/Benefits

9.5.1 Poverty in Azerbaijan

Poverty is rampant in Azerbaijan as a result of the myriad of catastrophic events that have occurred over the past 15 years. People are in poverty for many reasons, including: loss of employment and lack of new opportunities for employment; the several years of war and the resultant movements of large numbers of IDPs and refugees into the towns and cities; illness and disabilities; lack of capital and investment in the country; lack of entrepreneurship among much of the population following decades of communism; aging of the population; migration of productive family members/abandonment of women and children; etc..

In 2001, a State Commission was established to prepare a *State Programme on Poverty Reduction and Economic Development* (SPPRED). By 2003 a three-year programme⁸¹ was prepared. An absolute poverty line of 120,000 manats per person per month (\$25.80 U.S.) and a relative poverty line of 72,000 manats (\$15.50 U.S.) were established, based on data from the 2001 Household Budget Survey (HBS)⁸². Some of the main findings of the research were that:

- 49% of the population was living in poverty, with 17% in extreme poverty;
- poverty was greater in urban areas than rural areas (54% in large cities; 58% in towns; 42% in rural areas);
- the incidence of poverty was higher among IDPs, with some **63% of IDPs living in poverty** and 70% unemployed;
- education, once extremely effective, had deteriorated as a result of the occupation of schools by IDPs, and economic decline;
- health problems were a concern.

In 2003, the Government of Azerbaijan signed onto, and decided to align its poverty reduction Goals with, the UN Millennium Declaration and its Goals. The State Commission strengthened its efforts to compile and improve poverty monitoring indicators. In 2005 a Progress Report (2003-2004) was issued, which notes that the absolute poverty line has increased from 120,000 manats in 2001 to 194,000 (provisional) in 2004⁸³. The main findings of the Progress Report (which acknowledges that its main challenge is the lack of a strong statistical base) are as follows:

- Poverty decreased from 49% (based on the 2001 data cited above) to 44.7% from in 2003 (2004 figures unavailable);
- The poverty level in urban areas was cited to be 44.1% and in rural areas to be 45.3%, indicating a decrease of some 11% in urban areas (from 2001) and an increase in rural areas of about 3%, indicating a reversal of the situation in 2001 when urban populations were reported to be significantly more poor than rural ones;
- IDPs are considered one of the most vulnerable groups in the population although accurate data is difficult to compile given the highly mobile nature of the population. The report reiterates that "the lack of any permanent political solution...has led to both desperation and apathy among this part of the population"⁸⁴. The majority of IDPs still live in hostels and non-residential quarters, where they suffer from limited access to utility services; less than 50%

⁸¹ Republic of Azerbaijan. *State Programme on Poverty Reduction and Economic Development – SPPRED*, (2003) p.7.
⁸² "Absolute poverty" is defined as the cost of minimum consumption basket, calculated on the basis of per capita monthly minimum consumption norms; "Relative poverty" is defined as percentage of median of consumption expenditure.

¹¹ Republic of Azerbaijan. *State Programme on Poverty Reduction and Economic Development (SPPRED) Progress Report 2003/2004* (Baku, 2005) p.32.

⁸⁴ Ibid. p.50.

have access to piped water (Barda is cited as being the most dissatisfied IDP population as far as water is concerned) ;

- Women's level of poverty is slightly higher than men's (44.9% compared to 44.4%). At the same time, the data indicates that households with a female household head have a poverty incidence of only 29.5% compared with 40.3% of male headed households [Note: This data may reflect the modest share of female headed households in the household budget survey sample (19.4%)];
- The highest poverty level is in the 0-15 age group, pointing to the vulnerability of children;
- Large families are more at risk of poverty (57% for families with 6 or more persons; 13.6% for families with 2 persons);
- A higher than average level of poverty (46.1%) for the 30-39 age group is also of concern, since this group is considered the most active group of the able bodied population⁸⁵;
- Higher levels of education of the household heads correlates with lower poverty levels (29.6% where head has secondary education, compared with 45% for those with lower than secondary education;
- There has been net emigration from the countryside to the towns as many rural residents see better access to temporary employment there.

The report addresses the "poverty gap" (i.e., how far below the poverty line that the poorest people are). The poverty gap for the absolute poverty line for 2003 is 0.088, indicating that the average consumption expenditure of the poor population is 9.8% less than poverty line. This shows that even if the overall poverty level is relatively high (44.7%), the poverty gap is relatively small. The much lower level of *extreme poverty* (9.6%) is due to the fact that many of the poor are living close to the national poverty line.⁸⁶

Poverty incidence among IDPs appears to be decreasing, declining from a 2001 rate of 63% to 50.3% in 2003, although once again it is recognized that the data may be unreliable.

The average monthly wage of an employed person in Azerbaijan was 373,835 in 2003, and the household budget survey for 2003 indicates that some 40% of urban households' incomes is derived from wage employment. The minimum wage increased greatly, from 27,00 to 125,000 in January 2005, equal to the extreme poverty line⁸⁷

Another important contribution to the analysis of poverty in Azerbaijan has been a recently published Food Security and Nutrition Survey by the World Food Programme (WFP)⁸⁸, which focuses on rural areas. Among their findings are several that support the findings of the present PSA research related to, for example, the growing numbers of female-headed households (nearly 20% sampled IDP households were headed by women in the WFP survey), and the rapid aging of the population (one

⁸⁵ Ibid. p.33.

⁸⁶ Ibid. p.35.

⁸⁷ Ibid. p. 39.

⁸⁸ World Food Programme. Food Security and Nutrition Survey (Feb., 2005).

third of their households reported a household head over the age of 60). Forty per cent of the households had a chronically ill person, and at least half of these were reported to be heads of households. Over 20% had at least one member who was disabled, one-third of them being heads of households. Malnutrition was also found to be a serious issue, suffered not only by IDPs but by many local residents who do not receive food aid.

While IDPs are certainly one of the most vulnerable groups, as discussed throughout this report, it is also clear that the line between IDPs and local residents as far as poverty and vulnerability are concerned has blurred to a very large degree and the population as a whole can be considered as largely vulnerable.

9.5.2 Poverty in SII Study Areas

As noted above, there is no reliable, up-to-date statistical data related to employment, income levels, or poverty levels for the three study area municipalities. Therefore, poverty at the town level can only be discussed in relation to the state government (SPPRED) figures (which also need to be viewed with some caution), various other reports such as prepared by the World Bank (based on the same types of data as the SPPRED) and with regard to anecdotal information derived during the present study, as summarized above.

The lack of specific figures for each municipality may not be a major issue in this regard as while there are a **few regional differences** that can be identified based on both reported and new anecdotal information. As reported here, **the SPPRED indicates that there are not a lot of marked regional differences and that "poverty appears to spread quite broadly over the country"**⁸⁹. The reports of the World Bank concur, noting: **"The data so far do not allow strong conclusions to be made about differences in living standards across different regions of the country. These require further monitoring"**⁹⁰.

In support of the ADB project, however, it can be noted that the SPPRED has also acknowledged that **"poverty in towns is slightly worse than in larger cities"** (58% and 54% respectively, based on the 2001 household budget survey data), **and worse than in rural areas (46%)**⁹¹. Assuming a 4% decrease in these numbers, in accordance with the overall 2003 figures cited above, poverty in the towns can be estimated at 54%. This high figure is in concert with the anecdotal evidence derived during the study, where by most interviewees indicated that they could not pay their basic expenses at the end of each month. **The project, with its focus on the towns, is thus well positioned to target poverty where it is most common.**

In addition to the high poverty level associated with basic expenses outstripping income levels, access to basic services also needs to be considered in any discussion of poverty. In this context, **the beneficiaries under discussion here are similar in all three towns.** Almost all have access to basic necessities, including piped water (often communal), electricity (subsidized for IDPs) and telephones. With regard to ownership of assets, while local residents almost all own their apartments, IDPs are not permitted to own such property as they are officially supposed to be "going home" once their occupied territories are reclaimed. As such, assets of IDPs are very limited. Virtually all households (IDPs and locals) that were visited have television sets, regardless of their level of poverty, which are considered mandatory by people as their only source of

⁸⁹ SPPRED report, 2003, p. 27.

⁹⁰ World Bank, 2003, Poverty Reduction Report, ES P. 7,

⁹¹ Ibid, p. 23

entertainment and information. Cooking appliances are minimal among the IDPs, who cook on hot plates and rarely have refrigeration.

9.5.3 Beneficiaries, Benefits and Contributions to Poverty Reduction

The beneficiaries of the project include: the very vulnerable IDP populations living in occupied schools (who will receive new housing units); presently affected students and future generations of students (who will be able to study in the rehabilitated facilities); the local authorities (which will be strengthened through direct participate in the project and other capacity-building efforts); and the residents within the broader community (who will benefit from improved education and health of children, improved quality of life and living conditions in project areas, community and infrastructural improvements possible under the LIF, and employment creation, among others.) **The benefits that will be accrued to the various types of stakeholders are summarized in a Table in Section 9.6.3 below.**

Targeting poverty in the study areas was not a difficult process, given its prevalence among the population at large and particularly among the IDPs. Projects that address relocation of IDPs from any public buildings are clearly desirable and necessary, and there is a very long list of possible project sites, any of which will be beneficial. The IDPs in the occupied schools are clearly among the most vulnerable populations in the country, living in extremely poor conditions and generally well below the poverty line, according to the qualitative interviews that were carried out. Targeting these locations, identifying school residents as project beneficiaries and selecting this project typology (i.e., school reclamation) as a top priority for the ADB project was a clear choice, based on the vulnerability/poverty level that exists and the expressed desires and priorities of the range of stakeholders.

The SII project will contribute to **poverty reduction** in several ways. It will directly benefit some 814 IDP households (3500-4000 persons) living in secondary schools, who are virtually all living in poverty and in some of the worst conditions in the country. The project will provide them with **vastly improved living conditions** (housing and infrastructure) and quality of life, and allow them the basic human dignity they do not have under their current conditions. This will permit them to function as more productive members of society. At present, many of the IDPs people in the schools are living under such long-term stress that they are not able to take action to better their own situations, and have largely given up hope for a better life. The project will **ensure access to services, notably with regard to improved education**. The project will be **affordable**, imposing no additional costs for the beneficiaries. The project will establish targets to employ the poor, and address inequalities (e.g., provide for women's rights with regard to occupancy of new units). The project will include training and lead to empowerment of local communities.

While not amenable to direct quantification and monitoring, it is certainly clear that the project will result in **improved health** for all of the beneficiaries (targeted IDPs and students), and that this will be a major positive impact associated with the project. Health will be improved through: provision of improved water and sanitation in new buildings and restored schools; reduction of overcrowded conditions; improved ventilation and heating; proper kitchen facilities. Health benefits will particularly accrue to those among the target population who are the most vulnerable, such as the elderly and disabled, who are more prone than others to diseases and have less financial capacity to deal with medical costs. Young children will also strongly benefit, as they are also more prone to the infectious and respiratory illnesses that are common. Women will also particularly benefit from improved health conditions, as they are the ones who are most responsible for dealing with family health issues.

The project benefits will accrue not only to the direct beneficiaries but also serve to **reduce stress on the medical facilities and services**. Infectious and respiratory diseases are very common among the IDP residents of the schools and the student population as a result of the overcrowded conditions, poor air quality and lack of ventilation, poor sanitation, poor heating, etc. that characterize their situation. A very important benefit that will be realized as a result of the SII project will be the **cost savings associated with improved health conditions**. As noted above, medical expenses are one of the very most difficult problems faced by the most vulnerable people.

The newly constructed housing will develop the new areas of the towns, including present uninhabited sites, damaged by uncompleted constructions. Proposed infrastructure solutions (e.g. use of septic tanks, metering) are consistent with overall sector development strategies in the country. It is expected, that the new housing will facilitate further development of public transport services, trade and new green areas (mainly fruit trees). The projects will not use any hazardous construction materials and environmentally unfriendly technologies. All potential negative impacts due to site location, design, construction, and operation stages will be mitigated accordingly (for more details see Annex. Summary anticipated negative environmental impacts).

In addition to the health problems associated with the current conditions, **safety** is also an issue. The targeted buildings are generally in very poor condition and present many hazards to residents and students, including flooded basements, pest infestations and many fire hazards related to poor electrical systems, etc..

Improved education is obviously a major positive impact associated with the project. **Several thousand students** will benefit from the project, not only in the immediate future but for many years to come, providing improved chances for young people to create/find employment. The importance of this aspect of the project cannot be overstated.

Employment and income benefits will also be realized as a result of the project. Capital investment in the SII will be approximately US\$9 million. It can be assumed that approximately 30% (\$2.7 million) of this will represent direct labour costs, which translates to some 36,000 person-months (or 3,000 person years) of wages for project construction (based on average monthly wage of 373,835 manats (approximately \$75) in 2003). An economic multiplier of 1.25 – 1.4 can be assumed with regard to indirect and induced employment creation. Variations will depend on each community's ability to provide its own inputs and the extent to which leakage outside the community occurs. With regard to the balance of \$6.3 million for materials, it is assumed that there will be 100% local procurement of 75-80% local material. A 30% labour input is assumed here, resulting in creation of an additional \$1.9 million in direct wages (25,333 person months or 2,111 person years), as well as indirect job creation.

Other benefits will also accrue as a result of the project, as described in other report sections addressing economic aspects of the project.

It is suggested that of the total employment to be generated, **40% of skilled and unskilled jobs should be targeted towards the poor, with as many jobs as possible directed to women** (assuming that they express interest and as appropriate within the context of the Muslim society). Realization of such a target would result in over \$1 million in salary to the poor and women and the three communities during construction phases alone. To ensure that these types of benefits will accrue to the

poor and women, specific policy measures will need to be adopted and applied, as follows:

1. Preference will be given to local firms when hiring construction contractors and other workers;
2. Awareness-building and education will be delivered to selected firms to instill in them the need to provide maximum benefits to the poor and women;
3. Proactive measures, such as employment targets, will be established.

Implementation of specific employment policies such as these will ensure that the vulnerable populations can realize direct benefits from the project.

In addition to employment, several other indirect benefits will accrue to the three municipal areas as a result of the SII project with regard to the educational improvements, strengthening of the local authorities through associated capacity-building initiatives, associated infrastructural improvements, creation of employment opportunities and promotion of new economic development and investment.

With respect to the LIF project, this will also result in **many positive benefits to the local communities at large**. The facility will permit local groups to develop and implement a wide variety of smaller-scale projects such as building rehabilitation, infrastructure repairs, improvements to health and educational facilities, development of community facilities such as elder's houses, youth centres, etc.. All such initiatives will improve the overall quality of life for IDPs and local people. They will contribute to poverty reduction by creating conditions for people to be more, productive, energetic, cooperative and hopeful for a better future, and through creation of employment of many types (depending on projects selected for implementation). The process will also contribute to capacity-building and empowerment at the local level.

9.5.4 Contribution of Project to Millennium Development Targets (MDGs)

The project will contribute to the country's MDG targets as follows:

Goal 1: Eradicate Extreme Poverty: Project will help to reduce extreme poverty by moving IDPs to liveable accommodations;

Goal 2: Achieve universal primary education: Project will contribute immensely to educational improvements by vacating the schools of IDPs and refurbishing them for educational use;

Goal 3: Promote Gender Equality: Project will assist large numbers of female-headed households to acquire new housing, and include a Gender Equity Plan to ensure women are involved in project at all stages;

Goals 4,5,6: Reduce Child Mortality, Improve Maternal Health and Combat Disease: Project will provide improved health conditions for mothers, children and others among targeted population;

Goal 7: Ensure Environmental Sustainability: The project will be carried out in accordance with national and ADB-accepted standards.

9.6 Needs Assessment, Project Typology Identification and Specific Sub-Project Selection

9.6.1 Issues and Priority Needs of Stakeholders

The main issues identified by both IDPs/other vulnerable populations and other stakeholders throughout the study area municipalities included the following:

- Lack of employment and widespread poverty among a high percentage of the population;
- Extremely poor housing conditions, and associated basic infrastructure, as the predominant apartment/dormitory complexes where most town residents live have deteriorated over the past 15 years due to complete lack of maintenance;
- Occupation of public buildings by IDPs and subsequent deterioration of these facilities;
- Lack of tenure and viable assets that can be used to activate capital;
- Lack of entrepreneurship among much of the population;
- Lack of suitable credits;
- Fragile social capital/cohesion/leadership/trust; and
- Presence of many aged people, and people with illnesses and disabilities, especially among the IDP population.

9.6.2 Project Typologies

Base on the identified issues/needs of the stakeholders, the goals/objectives/policies of the various government levels, the consultants' first-hand research and professional experience, and the scope of allowable projects within the ADB's "Social Infrastructure for IDPs and Vulnerable Populations" project, the following priorities for action/project typologies were identified:

- **School reclamation:** Provision of improved accommodations for some of the worst-off IDPs, and reclamation of key public buildings, were widely considered to be top priority needs by the stakeholders, local authorities, and the consulting team, as well as by state officials;
- **Development of Municipal infrastructure:** In order to strengthen municipalities and their ability to provide basic services to their constituents, many improvements are required to water, sanitation, energy and transportation sectors. These needs, while not always directly expressed by local individuals as their priorities (which focused strongly on needs related to their day-to-day existence, such as better shelter and employment) are emphasized by local LEAs and baladiyas and are clearly important;
- **Rehabilitation of apartment and dormitory buildings:** Along with employment creation, improvement of living conditions in buildings is the main need expressed by the both local residents and IDPs. This type of project offers many benefits related to: reducing poverty and contributing to economic development (by providing an environment that allows people to live with dignity and good health); improving conditions for both IDP and local populations, as many live together in apartment complexes; filling gaps in social infrastructure provision; building local capacity; improving the day-to-lives of women by providing proper cooking facilities and washrooms; etc.;
- **Provision of community facilities:** A number of community-based initiatives are needed, including: open space/recreational developments; community centres for meetings/weddings/funerals; elders facilities; youth centres. At

present, these types of facilities are completely lacking for IDPs and most of the local residents.

9.6.3 SII Projects Areas, Beneficiaries and Impacts

The process related to selection of sub-projects (i.e., selection of specific school sites, etc.) is described in previous sections. Table 9-1 below presents a summary of the numbers of people affected. Table 9-2 summarizes key social issues that can be addressed under the project.

Table 9-1: Scope of SII				
Town	Building Site No.	No. of IDP families re-housed	No. of schools now inhabited by the IDPs.	No. of new buildings on the Site.
Barda	No. 2	228	6 schools	4
	No. 6	168	2 schools	3
Mingachevir	No. 3	300	10 schools	5
Sumgayit	No. 3	118	18 schools	2
Totals		814	36	14

Table 9-2: Social Issues and Project Design

Social Issues Addressed by Project	Outcomes/Impacts/Beneficiaries	
	Project Design Solutions and Impacts	Beneficiary Stakeholders
1.Occupation of schools/public buildings by IDPs and refugees	<ul style="list-style-type: none"> Reclamation of several schools 	<ul style="list-style-type: none"> SII households Thousands of students
2.Widespread poverty	<ul style="list-style-type: none"> SII project will relocate some 814 IDP families to new housing; will improve their living conditions, health, etc., creating conditions for them to be productive members of society; LIF programme will provide many opportunities for small-scale projects by local community groups; 	<ul style="list-style-type: none"> 814 households will have improved living conditions providing conditions that can lead to alleviation of poverty
3.Massive unemployment	<ul style="list-style-type: none"> Project construction will result in the creation of several hundred jobs during construction and operations associated with the project 	<ul style="list-style-type: none"> Local workers
4.Low social capital and weak local government	<ul style="list-style-type: none"> A strong participatory process has been included 	<ul style="list-style-type: none"> Local groups and organizations; local

capacity	<p>throughout the project preparation process, to respond to local needs and build ownership of the project, and this will continue through design, implementation, and monitoring & evaluation phases; the LIF has been designed specifically to stimulate community groups to come together to implement local projects; capacity-building of local authorities and community groups forms a major activity funded by the project</p> <ul style="list-style-type: none"> • Capacity building initiatives will improve capacity of local authorities to manage municipal affairs, attract investment and create employment, among others. 	government
5. Poor social infrastructure conditions (e.g., water and sanitation conditions; health and education deficiencies; few community and meeting facilities; few recreational facilities; etc.)	<ul style="list-style-type: none"> • The project will address several social infrastructure needs in the 3 towns, including: the SII, which will relocate IDPs from schools and reclaim the facilities for educational use; and the LIF, established to support small-scale investments initiated by community groups in partnership with local officials; etc. 	<ul style="list-style-type: none"> • Local community at large
6. Poor conditions of apartment and dormitory buildings, common areas and public areas	<ul style="list-style-type: none"> • The LIF programme will allow communities to apply for projects to improve buildings conditions (e.g., roof repairs; sanitation; water supply; public space improvements; etc.); 	<ul style="list-style-type: none"> • Communities in substandard buildings

As noted earlier, no negative socio-economic impacts associated with the project have been identified.

9.7 Participatory Processes

9.7.1 Stakeholder Development and Participation

A highly participatory process has been employed throughout the PSA and other project preparation tasks. A stakeholder identification and analysis process was carried out to identify all of the key players, with results as summarized above, and **stakeholder development has been on-going throughout the project preparation process** by way of an intensive, iterative consultation process over a period of four months with hundreds of individuals and agencies. The participatory process has

resulted in identification of needs, as noted above, which have formed the basis for project selection and design. The issues discussed have included: needs; project development priorities; poverty; gender; involvement and information provision preferences; alternatives and benefits.

The beneficiaries of the project will be directly involved in the design and implementation of the project, and will be consulted throughout all phases.

The LIF has been directly designed to be community-driven in its entirety, as described in Section 6.

The highly participatory approach that has characterized the project preparation phases will be continued during project design and implementation, and during monitoring and evaluation (see Section 11), through iterative meetings with the key participants/ beneficiaries, government representatives, NGOs and community groups.

9.7.2 Absorptive Capacity

The project beneficiaries currently living within the targeted school facilities are living under the harshest of conditions and are clearly in need of, and desirous of, new housing. While living under conditions of extreme duress, their demonstrated innovativeness and adaptability has been remarkable. They have had to develop ways to live in massively overcrowded conditions, dividing living spaces into increasingly small spaces to accommodate others, establishing kitchens in hallways, and doing laundry and washing children in dank basements. As such, they are considered to have an enormous absorptive capacity for change, and are **clearly receptive to new housing**. As has been demonstrated by the results of the Norwegian aid agency building rehabilitation projects, even buildings that have undergone simple renovations (e.g., painting, roofing, new kitchens and washrooms) are being well maintained by the local population, who repeatedly expressed their satisfaction with, and gratefulness for, the new facilities. Building maintenance committees and/or other types of organizations will be recommended for the new housing facilities, to establish long-term sustainability and upkeep of common areas, and the beneficiaries have expressed their desire to be fully involved in such activities.

With regard to the LIF, major effort will be made to develop capacity at the local community level to allow/encourage people to participate in the project.

9.8 Gender Analysis

The PSA study has shown that both women and men count among the most vulnerable people in the study area municipalities. Both sexes struggle to meet the needs of a family under the trying living conditions that exist today in Azerbaijan, particularly in the secondary towns where employment opportunities are most scarce and supplementary agricultural activities that can aid subsistence are not readily available. At the same time, there is evidence that many women are particularly vulnerable when they are household heads, as a result of losing their male household members to war, their somewhat lower access to employment and, increasingly, abandonment by their spouses. It is also true that most of the "lonely elders" are women, and that these are among the very poorest and most vulnerable people.

The government of Azerbaijan has, since the 1990s, been making concerted efforts to integrate gender concerns into all its activities and policies. The 2005 SPPRED document notes that work is now beginning on identifying the key gender issues, as part of the process to discuss the Millennium Development Goals, the country's new

National Plan of Action on Women's Issues and the ADB's on-going Country Gender Assessment being carried out with the State Committee on Women's Issues (SCWI). Under the constitution of the country "men and women" enjoy equal rights. While the major laws reflect these rights, in practice they are not always applied, partly due to lack of capacity and gender awareness.

Gender analysis and measurements of equality are "challenging without more adequate and reliable sex-disaggregated statistics", however, as noted in the SPPRED, "qualitative indicators are as important as quantitative data"⁹². UNDP is currently carrying out a survey, with results due in 2005.

There is little data specifically related to the link between poverty and women. The household budget survey results give no clear indication of a gender dimension to poverty⁹³, and the SPPRED reports poverty incidence at 44.4% for men and 44.9% for women⁹⁴. In terms of employment, the Labour Force Survey has indicated that in urban areas 53.8% of women are "economically active" compared with 80.6% of men. Of these, the employment rate is 82.7% for women and 87.8% for men and (unemployment at 17.3% and 9.2% respectively). Some information suggests that wage levels for females are much behind the levels for men (e.g., females' wages as a % of males' wages: chemical industry: 70.1%; air transport: 60.3%; communications: 84.8%; health and social sector: 54.5%; education: 72%). "Thus, while there is currently no clear evidence that women have a higher income poverty risk than men in Azerbaijan, there is evidence that they are more disadvantaged in the labour market"⁹⁵. Some 46% of urban women are reported to be economically inactive, reflecting their traditional roles in the home. IDP women, in particular, appear to stay at home.

With regard to education, the 1999 population census indicates that the literacy rate of the country is very high, at 99.8% (99.5% among men and 99.2% among women. Higher education is more common among males, who comprise about 54% of students in colleges. With regard to health issues, urban maternal mortality rates have been rapidly decreasing, dropping from 34.2 in 2001 to 15.7 in 2003. Children born out of wedlock have increased three-fold since 1990, due to increasing numbers of early (and therefore unregistered under the law) marriages. Stress is one of the most common problems facing poor women, especially the IDPs. Many women noted their regret at "waking up every day" and are under such duress that they are suicidal. Violence against women is not well reported and figures are not available, although the SPPRED cites one survey that estimates that 20% of women have suffered physical abuse and 10% have suffered sexual abuse⁹⁶.

A major consideration in terms of the present project is the fact that women are perhaps the most adversely affected by the extremely difficult physical living conditions faced by the poor. Many of the IDPs are living in places that were not meant for human habitation. Most of these women are unemployed/economically inactive and spend virtually all of their time in one small room occupied by several other people. They are cooking meals in makeshift "kitchens" in hallways, looking after children (who have nowhere to play but hallways and barren dirt fields), fetching water from yard taps to wash clothes and prepare baths, and very often tending to sick and elderly relatives. The SPPRED has noted that some 40,000 IDP women suffer from various diseases and disease incidence is increasing among children due to the poor living conditions and lack of access to clean drinking water.

⁹² SPPRED, 2005, p. 61.

⁹³ SPPRED, 2003, p. 27.

⁹⁴ SPPRED, 2005, p.33.

⁹⁵ Ibid

⁹⁶ Ibid, p. 67.

A major problem of direct relevance to the project, and an issue frequently noted by interviewed women, is that because of the conditions in the occupied public buildings and dormitories they are often expected to share common toilet facilities with men. As Muslim women, they find this deeply humiliating. Men also commented on this situation as one that is completely distressing.

It was also reported by gender experts in Azerbaijan that women-headed households are continuing to increase in number as men depart to look for work in Russia or elsewhere, often abandoning their families completely. Observations within the target buildings indicated that they are occupied during the day almost exclusively by women, children and elders, while men and youths are out looking for day labour. The International Organization for Migration (IOM) has also recently reported that there is, at the same time, a "feminization of irregular migration"⁹⁷, and that women are increasingly at risk from trafficking activities as their economic situations deteriorate, although no exact numbers are available.

While Azerbaijan, as a Muslim society, is highly patriarchal and patrilocal (i.e., women who marry generally move into the home of their husband and his parents), the field research indicated that women today are also often acting as building leaders and are respected for getting things done in the community. Interviewed women also noted that they get together and organize themselves to carry out many tasks related to the common areas in their buildings, such as cleaning the washrooms and hallways. These individuals/groups will be sought out and included in project activities, to build on and strengthen existing social capital and encourage women's participation in as many aspects of the project as possible.

Given their precarious situation, the SII project will offer particularly significant benefits to the women and children beneficiaries. As building residents who spend most of their time in the home, they will particularly benefit from the improved housing conditions that will include piped indoor water supply and individual kitchens and washrooms within their own living quarters. The improvements will markedly reduce the time they need to spend hauling water from yard taps and doing household cleaning tasks. If communal toilet facilities are to be provided in any new or renovated buildings, separate facilities for men and women will be provided. Communal areas for women's activities will be included in building plans, including meeting spaces and washing/laundry areas, which will allow women opportunities to work together and socialize.

As the caretakers of the family, women will also benefit enormously with regard to the health benefits that will accrue as a result of the SII project(s), as discussed above, and will be able to enjoy higher levels of productivity.

9.9.1 Gender Action Plan

The SII and the LIF involve social infrastructure investment (the LIF at a smaller scale), implementation and management and capacity building activities. Each of these has been described in earlier report sections. While it is recognized that most of the construction employment will, realistically speaking, accrue to men, opportunities for women (e.g., overseer and coordination positions; office positions; monitoring and evaluation; etc.) will be evaluated and directly promoted as described above.

⁹⁷

IOM, "Shattered Dreams: Report on Trafficking in Persons in Azerbaijan", 2002, p. 12

Project designers and implementers will ensure that women will be directly included in all consultations related to development of the project, to ensure their needs are addressed. If women are not participants in public meetings, etc., separate meetings for them will be provided. Women will be directly mobilized and trained to play an active role in any and all organizations that are established with regard to operations and maintenance activities associated with the project. As noted above, some women are emerging as block leaders, and these should be specifically identified and targeted as participants in, for example, building maintenance organizations. Women will also be able to contribute strongly in areas such as education and awareness-building regarding hygiene and health, to ensure the new facilities are well-maintained for long-term sustainability.

While tenure will likely not be given to residents of the new buildings, at least not initially, it will be ensured that whatever rights of occupancy/tenancy that are assigned to the apartment units will be fully considerate of women's rights and ensure complete equality. This issue will need to be addressed more fully as project design progresses.

With regard to the LIF project, inclusion is a key tenet of the programme, and women will be required to comprise a significant part of the community groups that will benefit.

The following table presents a summary of the Gender Action Plan that is proposed:

Table 9-3: Gender Action Plan

1. SII Activities

Actions Proposed

Social Infrastructure for IDPs (SII)

Relocation of IDPs from schools; construction of new medium-density multi-unit dwellings; rehabilitation of schools

- Participatory process to identify needs, projects, and sites including both women and men;
- Use of gender disaggregated data wherever possible/available;
- Qualified females will have equal access to training and employment under the project;
- Specific considerations for women and girls (e.g., separate school and housing toilet facilities) will be included in designs/plans;
- Tenure/occupation rights regarding new housing units needs to be specifically addressed to ensure women's rights are protected;
- Female headed households will be treated the same as male-headed households, receiving equal accommodations, compensations, etc.;
- Common spaces will be designed with the specific needs of women in mind (e.g., water collection points; washing facilities/rooms; meetings areas; etc.)

Implementation and Management

Management of projects

- Women will be equally considered with men for any and all management and project implementation work;
- Women consultants and ADB/government

staff should be engaged in project activities (consultations; design; assessments; etc.);

- Project benefits and impacts will be monitored and evaluated through gender-disaggregated data. Survey respondents will include both men and women;

Capacity Building

Training for local government and community groups, NGO, etc.

- Training open to women and men equally;
- Training materials will be sensitive to gender issues;
- Awareness-building and consultation programmes should be directed 50% towards women, using gender disaggregated groups as required to ensure women can participate fully;
- Community groups trained should be comprised of at least 50% women.

2. Local Initiatives Facility Activities

Facility for small-scale community developments to enable groups to carry out high priority social infrastructure projects through demand driven process

- Women/women's groups will be encouraged to participate in application processes, and projects directed at women's groups will be given particular attention;
- Women will be required to be part of community groups that apply for assistance under the facility;

9.9 Social Safeguard Issues

The study process has involved assessment of a number of social safeguard issues and established that no safeguards will be triggered as a result of the project, as described below.

9.9.1 Resettlement

No involuntary resettlement is planned as part of the SII. It is specifically targeted at IDPs who were provided temporarily shelter in public buildings and elsewhere until they could return home, or until better solutions for their shelter needs could be provided. Their relocation assumes voluntary movement to new accommodations. As there are so many school facilities in need of reclamation and so many IDPs in clear need who urgently desire relocation, any groups who do not unanimously agree to move can be excluded from the project. Land acquisition from local residents, businesses, etc., will not be required as all of the necessary land for the new construction is under the ownership of the municipalities and the other levels of government.

With regard to the LIF, a Resettlement Framework has been prepared (as included in this report) to address any involuntary resettlement issues that may emerge with regard to proposals/projects that arise during its implementation. It is suggested that this issue should be discussed further as the ADB project proceeds/expands. Given the project typologies and relatively small size of the LIF projects, it may be preferable to simply exclude proposals that would involve resettlement rather than expend extensive time and funds on this issue.

9.9.2 Ethnic Minorities/Indigenous Peoples

Azerbaijan is one of the most ethnically homogenous of the former Soviet republics, with over 90% of the population Azerbaijani. Some 2% of the population is Dagestani, 1.8% Russian and 1.5% Armenian.

There are no ethnic minorities or indigenous peoples who will be negatively affected by the project.

9.9.3 Affordability

For their day-to-day survival, IDPs currently depend on assistance from government and humanitarian organisations. Humanitarian assistance over the years has been decreasing. Currently some 212,000 are provided with food assistance of 4-5 kg, as opposed to the 20kg they received in years past. The main source of livelihood for most families is the state assistance in the form of a monthly cash subsidy of AzM 30,000 (\$6) per person⁹⁸. Prior to 2001, IDPs were exempted from utility service payments, including electricity, gas, water waste collection and telephone. By a Decree dated December 26, 2001, the government withdrew these and instead decided to provide direct monthly compensation to the utility service organisations at a fixed price of AzM15,000/person. This does not apply equally among IDPs, as depending on the place settled some do not have access to all services.

The affordability levels IDP households can safely be assumed to be nil. The project does not envisage any contribution, in cash or kind. The maintenance of the buildings constructed under the SII project will be maintained by the SCRI from state budgetary resources. Community awareness programmes, working with Mahala Committees, will encourage participating households to take upon themselves the maintenance of common area and services.

9.10 Project Performance Monitoring and Evaluation

A participatory approach has been taken throughout the project preparation, as described throughout this report, and on-going participation and consultation is to be continued during implementation and future phases of the PPTA. A highly participatory Monitoring and Evaluation Plan has been prepared, as described in a later report section.

NOTE: See Annex X for Summary "Poverty Reduction and Social Strategy" (PRSS) required by ADB.

⁹⁸ The order of the President issued in December 2004, the subsidy was increased from AzM25,000 to AzM 30,000.

10.0 Project Cost and Financing Plan

The SII is estimated to cost \$12.70 million, including infrastructure investments, institutional and management, and capacity-building measures. The SIRT and LIF are budgeted at an additional \$36.60 million. It is proposed that ADB will finance \$36.25 million, or 73.5% of the total Project cost.

10.1 Social Infrastructure of IDPs and Vulnerable Populations (SII)

10.1.1 Cost

The cost for the SII is estimated at \$12.70 million equivalent. The foreign exchange cost is estimated at \$2.970 million, or about 23.4% of the total cost, including \$0.268 million for interest charge. The local currency cost is estimated at \$10.730 million equivalent, or about 76.6% of the total cost, including duties and taxes of about \$1.213 million. Table 10-1 summarises the estimated project costs.

Table 10-1: Cost Estimates – Social Infrastructure for IDPs (\$ million)					
	Activity	Foreign Exchange	Local Currency	Total Cost	Percent
A.	Base Cost^a				
	Social Infrastructure	1.789	6.501	8.290	76.5
	Capacity Building and Institutional Strengthening	0.120	0.080	0.200	1.8
	Implementation Assistance				
	1. Consulting Services	0.347	0.348	0.695	6.4
	2. Incremental Administration	0.110	0.332	0.442	4.1
	Subtotal	0.458	0.679	1.137	10.5
	Subtotal (A)	2.367	7.260	10.628	88.8
B	Taxes and Duties	-	1.213	1.213	11.2
C	Total Base Cost (including taxes)	2.367	8.474	10.841	100.0
D	Contingencies				
	1. Physical ^b	0.180	0.678	0.858	7.9
	2. Price ^c	0.155	0.579	0.733	6.8
	Subtotal (D)	0.335	1.256	1.591	14.7
E	Interest Charge	0.268	-	0.268	2.5
	Total^d	2.970	10.730	12.700	117.2

a At July 2005 prices

b Estimated at 8% of base cost.

c Estimated at 2.4% on the foreign exchange and 4% on local costs.

d Total may not add up because of rounding.

10.1.2 Financing Plan

It is proposed that ADB provide a loan of \$9.700 million equivalent from its Special Funds resources (Asian Development Fund (ADB) loan) to cover 76.4% of the total cost of the SII. The ADB loan will have a maturity of 32 years including a grace period of 8 years, and an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter. The Borrower of the loan will be the Republic of Azerbaijan. The loan will finance the entire foreign exchange costs of \$2.970 million (23.4%), and about

\$6.730 million equivalent of the local currency costs (or 69.2%). ADB's financing of the local currency expenditure is for civil works, including local labour and construction materials, project management and capacity building. The proposed financing plan is shown on the table below. Interest charge is capitalized in the loan amount:

Table 10-2: Financing Plan – Social Infrastructure for IDPs (SII) (\$ million)				
Source	Foreign Exchange	Local Currency	Total Cost	Percentage
Asian Development Bank	2.970	6.730	9.700	76.4
Government ^a	-	3.000	3.000	23.6
Total	2.970	10.730	12.700	100.0

a. Include Baladiyyas contribution to lands for construction of buildings.

9.73 ?

Annex T shows the distribution of year-wise project cost and financing plan for ADB and Government.

10.2 Social Infrastructure for Regional Towns (SIRT)

10.2.1 Cost

The total cost of the SIRT, including the LIF and CBLG, is an estimated \$36.6 million equivalent. **These are preliminary estimates/allocation and will be detailed during the preparation of the second phase later in 2005.** The foreign exchange cost is estimated at \$7.487 million, or about 20.5% of the total cost, including \$0.492 million for interest charge. The local currency cost is estimated at \$29.113 million equivalent, or about 79.5% of the total cost, including duties and taxes of about \$2.832 million. Table 10-3 summarises the estimated costs.

Table 10-3: Cost Estimates - SIRT, LIF, CBLG (\$ million)					
	Activity	Foreign Exchange	Local Currency	Total Cost	Percent
A.	Base Cost^a				
	Social Infrastructure for Regional Towns	4.250	14.831	19.081	62.3
	Local Initiative Facilities Fund	-	4.000	4.000	10.1
	Capacity Building for Local Government	0.320	0.480	0.800	2.6
	Implementation Assistance				
	1. Consulting Services	1.015	0.771	1.786	5.8
	2. Incremental Administration	0.268	1.878	2.145	7.0
	Subtotal	1.282	2.649	3.931	12.8
	Subtotal (A)	5.852	21.960	27.812	90.8
B	Taxes and Duties	-	2.832	2.832	10.2
C	Total Base Cost (including taxes)	5.852	24.791	30.643	100.0
D	Contingencies				
	1. Physical ^b	0.516	1.936	2.452	8.0
	2. Price ^c	0.626	2.387	3.013	10.8
	Subtotal (D)	1.142	4.322	5.465	17.8
E	Interest Charge	0.492	-	0.492	
	Total^d	7.487	29.113	36.600	119.4

a At July 2005 prices

b Estimated at 8% of base cost.

c Estimated at 2.4% on the foreign exchange and 4% on local costs.

d Total may not add up because of rounding.

10.2.2 Financing Plan

It is proposed that ADB provide a loan of \$26.550 million equivalent from its Special Funds resources (Asian Development Fund (ADB loan)) to cover 72.5% of the total project cost. The ADB loan will have a maturity of 32 years including a grace period of 8 years, and an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter. The Borrower of the loan will be the Republic of Azerbaijan. The loan will finance the entire foreign exchange costs of \$7.487 million (20.5%), and about \$19.063 million equivalent of the local currency costs (or 65.5%). ADB's financing of the local currency expenditure is for civil works, including local labour and construction materials, project management and capacity building. The financing of local expenditure is justified by the nature of the Project, which will improve the living and health conditions of the population in the regional towns. The proposed financing plan is shown in Table 10-4. Interest charge is capitalized in the loan amount.

Table 10-4: Financing Plan - SIRT (\$ million)				
Source	Foreign Exchange	Local Currency	Total Cost	Percentage
Asian Development Bank	7.487	19.063	26.550	72.5
Government	-	10.050	10.050	27.5
Total	7.487	29.113	36.600	100.0

10.3 Total Project Cost

The total PPTA implementation cost (SII, SIRT, LIF and CBLG) is estimated at \$49.300 million equivalent. The foreign exchange cost is estimated at \$10.457 million, or about 21.2% of the total cost, including \$0.760 million for interest charge. The local currency cost is estimated at \$38.843 million equivalent, or about 78.8% of the total cost, including duties and taxes of about \$4.045 million. Table 10-5 summarises the total estimated project costs.

Table 10-5: Project Cost Estimates (\$ million)					
	Activity	Foreign Exchange	Local Currency	Total Cost	Percent
A.	Base Cost^a				
	Social Infrastructure for Internally Displaced Persons	1.789	6.501	8.290	20.0
	Social Infrastructure for Regional Towns	4.250	14.831	19.081	46.0
	Local Initiative Facility Fund	0.000	4.000	4.000	10.6
	Capacity Building for Local Government				
	1. SCRI/SFDI	0.120	0.080	0.200	0.5
	2. Local Governments	0.320	0.480	0.800	1.9
	Subtotal	0.440	0.560	1.000	2.4
	Implementation Assistance				
	1. Consulting Services				
	a. Social Infrastructure for IDPs	0.348	0.347	0.695	1.7
	b. Social Infrastructure for Regional Towns	1.015	0.771	1.786	4.3
	2. Incremental Administration				
	a. Social Infrastructure for IDPs	0.110	0.332	0.442	1.1
	b. Social Infrastructure for Regional Towns	0.268	1.878	2.145	5.2
	Subtotal	1.740	3.328	5.069	12.2

	Subtotal (A)	8.220	29.220	37.440	90.2
B	Taxes and Duties	0.000	4.045	4.045	10.8
C	Total Base Cost (including taxes)	8.220	33.265	41.485	100.0
D	Contingencies				
	1. Physical ^b	0.696	2.613	3.310	8.0
	2. Price ^c	0.781	2.965	3.746	10.0
	Subtotal (D)	1.477	5.579	7.056	17.0
E	Interest Charge	0.760	-	0.760	1.8
	Total^d	10.457	38.843	49.300	118.8

a At July 2005 prices

b Estimated at 8% of base cost.

c Estimated at 2.4% on the foreign exchange and 4% on local costs.

d Total may not add up because of rounding.

10.4 Overall Financing Plan

It is proposed that ADB provide a loan of \$36.250 million equivalent from its Special Funds resources (Asian Development Fund (ADB loan)) to cover 73.5% of the total project cost, including \$25.793 million equivalent of the local currency cost. The ADB loan will finance \$9.700 million equivalent of the project costs relating to the SII and \$26.550 million equivalent of the project costs relating to the SIRT (including LIF and CBLG).

The ADB loan will have a maturity of 32 years including a grace period of 8 years, and an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter. The Borrower of the loan will be the Republic of Azerbaijan. The loan will finance the entire foreign exchange costs of the Project (\$10.457 million or 21.2%), and about \$25.793 million equivalent of the local currency costs (or 66.4%). ADB's financing of the local currency expenditure is for civil works, including local labour and construction materials, project management and capacity building. The financing of local expenditure is justified by the nature of the Project, which will improve the living and health conditions of the IDPs living in the worst conditions in the three towns, and improves the living conditions of the population in eight regional towns with improved urban services.

The proposed financing plan for the Project is shown in Table 10-6. Interest charge is capitalized in the loan amount.

Table 10-6 Project Financing Plan (\$ million)				
Source	Foreign Exchange	Local Currency	Total Cost	Percentage
Asian Development Bank	10.457	25.793	36.250	73.5
Government ^a	-	13.050	13.050	26.5
Total	10.457	38.843	49.300	100.0

a. Include Baladiyyas contribution for lands for social infrastructure for IDP related activities.

Part of the ADF loan, \$9.700 million equivalent, will be transferred through the budgetary appropriations to the State Fund for Development of IDPs (SFDI), the project implementation management agency, representing the State Committee for Refugees and IDP's (SCRI), to part finance the project cost relating to the SII. The balance \$26.550 million equivalent of the ADB loan will be transferred through the budgetary appropriations to the Project Management Unit established under the MOED to part

finance the project cost relating to the SIRT, including the LIF and CBLG activities. The Government and the Baladiiyas will finance the remaining local currency cost, in the form of lands, taxes and duties, incremental staff costs, and part of the costs of the civil works and materials, estimated at \$3.000 million equivalent for the SII and \$10.050 million equivalent for the SIRT (including LIF and CBLG). The Government will bear the interest charges and foreign exchange risks.

The on-lending of the ADB loan to the Baladiiyas under the SIRT will be suggested upon completion of the project outlines under the next phase of the project preparation.

11.0 Project Performance Management System

The Project Performance Management System (PPMS) generates critical management information for project managers to enable them to determine if the project is achieving its expected outputs and objectives, and if not, allows them sufficient time to take remedial action. It is an integral part of project management, not a separate project component. Information required to monitor and evaluate the project is provided through the existing management information systems of government agencies. Assumptions and risks are also monitored by the executing agencies that provide quarterly risk analysis to ADB. As an integrated process with project management, The PPMS follows the same participatory approach to data collection and reporting that has characterized the design stage of the project. Such additional monitoring activities include the Joint Annual Review and Project Steering Committee meeting; mid-term and end-of-project evaluations; as well as an impact evaluation following the completion of the project.

11.1 Monitoring as Management

ADB believes that monitoring and monitoring systems should be integrated into project management for timely and effective management decision-making. The PPMS incorporates this principle and, as such, is closely tied to the institutional and Management Arrangements as described in other report sections. Reporting systems, formats and forms for PPMS purposes are the same as for project management purposes, to ensure the desired integration.

11.2 Management Information System

Both the project Executing Agencies and the Implementing Agencies have existing management information systems that will be utilized by the project to collect information related to the outputs and objectives indicators. The IAs will employ a participatory approach to involve the Mahalas and community groups, as well as, in some cases, the general citizenry of the selected towns. It is common practice in Azerbaijan for such agencies to collect data and report on a monthly basis. This process will be used to provide information to project management and for a quarterly summary by the EAs in progress reports to ADB. During the project inception period, project management (with the assistance of a monitoring and evaluation specialist, via the PIMU for the SII, and the PIU for the SIRT) will determine what additional data is required to be collected by the Baladiyyas MIS. Currently much of the information collected, and the resulting monthly reports, are done manually at the Baladiyya level. Capacity will be developed at both the EA and IA levels not only to ensure that the appropriate quality and quantity of data is collected for the project, but that it is computerized as well. This will involve computerizing the existing MIS's at each level.

11.3 Monitoring Assumptions and Risks

The project performance framework (see below) makes several assumptions that need to be monitored by project management. Assumptions are conditions under which the project operates but which are outside management's control. The assumptions are stated positively; the inverse stated negatively becomes a risk to the project's success. The Executing Agencies will provide a risk analysis in each quarterly progress report.

11.4 Joint Annual Review Process and Project Steering Committee Meeting

One of the main monitoring tools for ADB is the Joint Annual Review (JAR). During the JAR, ADB staff (and consultants as needed) and the Project Steering Committee members form a team that reviews progress to date, participates in the PSC meeting (that takes place once a year to coincide with the JAR), approves the EAs' work plans, and carries out field visits to observe, first hand, progress of the project. The product of the JAR is an Aide Memoire outlining an evaluation of progress and recommending any additional or corrective action that may be required of project management.

11.5 Project Evaluations

There will be three evaluations carried out related to the results of the Social Infrastructure for IDPs and Vulnerable Populations Project:

1. Mid-term Evaluation: a formative evaluation carried out by an independent consultant, the aim of which is to gain a new perspective of the project, verify progress to date, and make any recommendations for project improvement;
2. End-of-project Evaluation: a summative evaluation to confirm achievement of results and provide lessons learned for future projects of a similar nature;
3. Impact Evaluation: an evaluation to determine what the collective impact of the project has been two years after its completion and what its contribution has been at the larger Azerbaijani societal level as indicated in the project's goal statement.

11.6 Participatory Approach to Monitoring

The first phase of the PPTA has been characterized by a highly participatory methodology that will be carried over to the next phases and project implementation, including the management and monitoring aspects. Data collection and the resulting decision making will be carried out by and with the various project beneficiaries in an effort to ensure ownership, ensure the right decisions are made, promote sustainability and ensure an effective and efficiently implemented project.

11.7 International Financial Monitor

It is recommended that an international financial monitor be assigned to carry out periodic (e.g., bi-annual) audits the project as it is implemented, to ensure transparency and proper expenditures of funds.

11.8 The PPMS in Detail

The project's PPMS is illustrated in Table 11-1 on the following pages:

Table 11-1: Project Performance Management System (PPMS) Matrix

Design Summary	Performance Indicators/ Targets	Baseline Information	Methods	Data Sources	Frequency	Who Collects	Who Reports	Resources
GOAL Improved Living standards for Internally displaced persons (IDPs) and other vulnerable groups in urban areas; Enhanced capacity for municipalities	Increased number of people utilizing improved social infrastructure Increased skill levels and municipal activities	1. 0.576m IDPs in Azerbaijan 2. 49% people living in poverty in Azerbaijan (63% of IDPs) 3. 17% people living in extreme poverty in Azerbaijan	- Interviews - surveys - review reports - Impact evaluation	- SCRI - MoED - Cabinet of Ministers - donors	Annually following completion of project except for impact evaluation which would take place two years after the completion of the project.	ADB in Azerbaijan	To ADB, Manila from ADB, Azerbaijan	ADB staff and/or consultants
OBJECTIVES 1. Increased access to affordable social infrastructure and services for IDPs	1.1 Increased number of IDPs using improved social infrastructure	1.1 & 1.2 2,910 IDPs (Barda 1,270, Mingachevir 1,170)	1.1 observation	- IDPs - Mahalas - Balydias	- quarterly to ADB from executing agencies - mid-term and	- executing agencies from the Baladiyas/ PIUs	- Executing agencies to ADB - Baladiyas/	Built into project budget

Design Summary	Performance Indicators/ Targets	Baseline Information	Methods	Data Sources	Frequency	Who Collects	Who Reports	Resources
and other vulnerable groups in selected towns	and services 1.2 Satisfaction of IDPs with the quality of social infrastructure and services	Sunguyit 470)	1.2 interviews, surveys		end-of-project evaluations 1.1 monthly to executing agency from Baladiyyas/ PIUs 1.2 at the completion of sub and micro projects	- Baladiyyas/ PIUs from Mahalas - evaluators	PIUs to executing agencies - evaluators to PSCs and ADB	
2. Strengthened capacity of government and community groups to identify priority infrastructure needs and provide services to vulnerable groups on selected towns	2.1 Local governments and community groups in selected towns utilizing their learning from training and capacity building activities 2.2 150 successfully completed sub- & micro projects	2.1 low level of capacity 2.2 - zero	2.1 observation, interviews 2.2 interviews, review reports	2.1 Baladiyyas, Mahalas 2.2 Baladiyyas, Mahalas, beneficiaries	2.1 - quarterly to ADB from executing agencies; quarterly to executing agencies from Baladiyyas/ PIUs 2.2 - quarterly to ADB from executing agencies; monthly to executing agencies from Baladiyyas/ PIUs			
OUTPUTS Social								

Design Summary	Performance Indicators/ Targets	Baseline Information	Methods	Data Sources	Frequency	Who Collects	Who Reports	Resources
Infrastructure for IDPs (SI) in Barda, Mingachevir, and Sumgayit	1.1.1 814 IDP families living in new housing (Barda 396, Mingachevir 300, Sumgayit 118)	1.1 - 814 IDP families	1.1.1 - observation, review reports	1.1.1 - IDPs, Mahalas, Baladiyas	1.1.1 - at the completions of each building	- executing agencies from the Baladiyas/ PIUs	- Executing agencies to ADB	Built into project budget
1.1 New housing for IDP families.	1.1.2 Satisfaction of IDPs with the quality of new housing		1.1.2 - interviews, surveys	1.1.2 - IDPs	1.1.2 - three months after IDPs move in	- Baladiyas/ PIUs from Mahalas	- Baladiyas/ PIUs to executing agencies	
1.2 Schools freed for education use	1.2.1 36 Schools freed for education use (Barda 8, Mingachevir 10, Sumgayit 18)	1.2.1 - 36 schools	1.2 - observation, review reports	1.2 - Baladiyas, LEAs, Ministry of Education	1.2 - once after relocation			
	1.2.2 35,000 students using newly freed schools (Barda 5,800, Mingachevir 8,200, Sumgayit 21,000)	1.2.2 - ___ students						

Design Summary	Performance Indicators/ Targets	Baseline Information	Methods	Data Sources	Frequency	Who Collects	Who Reports	Resources
1.3 SCRI offices - Baku and towns - are supported	1.3 Baku and town SCRI offices utilizing project-provided equipment to manage local IDP situation	1.3 - Limited quantity and quality of equipment	1.3 - observation	1.3 - SCRI offices	1.3 - annually	1.3 - SCRI head office from local SCRI offices	1.3 - Executing agency to ADB	
1.4 New Mahalas established within new housing developments	1.4 New housing development block/ building associations are operating effectively	1.4 - zero	1.4 - observation, interview	1.4 - Mahalas, beneficiaries	1.4 - quarterly to ADB from executing agencies; monthly to executing agencies from Baladiyas/ PIUs	- executing agencies from the Baladiyas/ PIUs	- executing agencies to ADB - Baladiyas/ PIUs to executing agencies	Built into project budget

Design Summary	Performance Indicators/ Targets	Baseline Information	Methods	Data Sources	Frequency	Who Collects	Who Reports	Resources
<p>Social Infrastructure for Regional Towns (SIRT)</p> <p>Component B-1; B-2; B-3</p> <p>2.1 City development strategies prepared where none exist</p>	<p>2.1.1 CDS adopted and implemented by five municipality</p> <p>2.1.2 Baladiyas are using transparent design, implementation, management processes in partnership with LEA, community groups</p>	<p>2.1.1 – existing strategies not sufficient</p> <p>2.1.2 – Baladiyas are new organizations requiring assistance to form effective partnerships</p>	<p>2.1 – observation, interview</p>	<p>2.1.1 – Baladiyas</p> <p>2.1.2 – Baladiyas, LEAs, community groups</p>				
<p>2.2 social infrastructure constructed;</p> <p>solid waste management systems improved;</p> <p>urban roads and drainage</p>	<p>2.2.1 – one million persons with improved service</p> <p>2.2.2 – 5,000 out-of-work persons (including IDPs) employed in new construction/renovation</p>	<p>2.2 – zero</p>	<p>2.2 – observation, interview</p>	<p>2.2 – Baladiyas</p>				

Design Summary	Performance Indicators/ Targets	Baseline Information	Methods	Data Sources	Frequency	Who Collects	Who Reports	Resources
improved; and community halls								
3. Component B-5: Local Initiatives Facility (LIF) 3.1 community groups are successfully implementing high-priority social infrastructure micro-projects in selected towns	3.1.1 - \$3.0m disbursed through micro-projects 3.1.2 - 150 micro-projects implemented by community groups through participatory, transparent process 3.1.3 - 225,000 people effected by micro-projects	3.1 - zero	3.1 - review reports 3.1.2 - observation, interviews	3.1 - community groups, Baladiyas	- quarterly to ADB from executing agencies; monthly to executing agencies from Baladiyas/ PIUs; monthly to Baladiyas from community groups	- executing agencies from the Baladiyas/ PIUs - Baladiyas/ PIUs from Mahalas	- executing agencies to ADB - Baladiyas/ PIUs to executing agencies	Built into project budget

Design Summary	Performance Indicators/ Targets	Baseline Information	Methods	Data Sources	Frequency	Who Collects	Who Reports	Resources
4. Component B-4: Capacity Building for Local Governance (CBLG)								
4.1 Mahala Komitesis; Baladiyas; and LEAs are strengthened in governance, management, project implementation, and popular participation in selected town.	<p>4.1.1 Project-trained individuals are utilizing their learning in their work.</p> <p>4.1.2 Proclaimed laws reflect new principles of municipal government</p>	<p>4.1.1 & 4.1.2 – zero</p>	<p>4.1.1 – observation</p> <p>4.1.2 – review documents</p>	<p>4.1 – citizens, Mahalas, Baladiyas, LEAs</p>	<p>- quarterly to ADB from executing agencies; quarterly to executing agencies from Baladiyas/ PIUs; quarterly to Baladiyas from community groups</p>	<p>- executing agencies from the Baladiyas/ PIUs</p> <p>- Baladiyas/ PIUs to executing agencies</p>	<p>- Executing agencies to ADB</p> <p>- Baladiyas/ PIUs to executing agencies</p>	Built into project budget
4.2 Women are participating in local government	<p>4.2.1 Citizens are participating in governance at the municipal level in the selected towns</p> <p>4.2.2 - women are active in Mahalas (40-50% of leaders), and Baladiyas (11-25% of councillors)</p>	<p>4.1.3 – fledgling Mahalas and Baladiyas present, operating at a low level of effectiveness</p> <p>Women are active in Mahalas at around % of leaders, not at all in the Baladiyas.</p>	<p>4.1.3 – observation, interviews, survey</p> <p>4.2 – review minutes, observation, interviews</p>	<p>4.2 – women, Mahalas, Baladiyas</p>				

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