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AZERBAIJAN

Internally Displaced Persons Economic Development Project

Report No. 128682

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Report No.: 128682

PROJECT PERFORMANCE ASSESSMENT REPORT

REPUBLIC OF AZERBAIJAN

**INTERNALLY DISPLACED PERSONS ECONOMIC DEVELOPMENT
PROJECT**

(30874-AZ)

July 24, 2018

*Financial, Private Sector, and Sustainable Development
Independent Evaluation Group*

Currency Equivalents (annual average)

Currency Unit = Manat

US\$1.00 = Manat 0.785300

Abbreviations and Acronyms

| | |
|----------|---|
| ARRA | Azerbaijan Agency for Rehabilitation and Reconciliation |
| AzRIP | Azerbaijan Rural Infrastructure Development Project |
| CAS | Country Assistance Strategy |
| CPS | Country Partnership Strategy |
| ICR | Implementation, Completion, and Results |
| ICRR | Implementation, Completion, and Results Review |
| IDA | International Development Association |
| IDP | internally displaced person |
| IDP-EDS | Internally Displaced Persons Economic Development Support Project |
| IDP-LSLP | IDP Living Standards and Livelihoods Project |
| JSDF | Japanese Social Development Fund |
| PAD | Project Appraisal Document |
| PLI | Partner Lending Institution |
| PDO | Project Development Objective |
| PRP | Pilot Reconstruction Project |
| SFDI | Social Fund for Development of IDPs |
| UNDP | United Nations Development Programme |
| UNHCR | United Nations High Commissioner for Refugees |
| USAID | United States Agency for International Development |

| | | |
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| <p>This report was prepared by Hjalte Sederlof (Consultant), who assessed the project in January to February 2018. The Consultant was supervised by Susan Caceres (TTL). The report was peer reviewed by Caroline Mascarell and panel reviewed by Christopher Nelson. Richard Kraus provided administrative support.</p> |
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Principal Ratings

| | ICR* | ICR Review* | PPAR |
|-----------------------------|-------------------|-------------------------|-------------------------|
| Outcome | Satisfactory | Moderately Satisfactory | Moderately Satisfactory |
| Risk to Development Outcome | Low or Negligible | Moderate | Low |
| World Bank Performance | Satisfactory | Moderately Satisfactory | Moderately Satisfactory |
| Borrower Performance | Satisfactory | Moderately Satisfactory | Moderately Satisfactory |

* The Implementation Completion and Results (ICR) report is a self-evaluation by the responsible World Bank department. The ICR Review is an intermediate Independent Evaluation Group product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

| Project | Task Manager/Leader | Practice Director | Country Director |
|------------|-----------------------|--------------------|---------------------|
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IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.
About this Report

The Independent Evaluation Group (IEG) assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the World Bank's self-evaluation process and to verify that the World Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the World Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or World Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview World Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible World Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both World Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the World Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: <http://ieg.worldbankgroup.org>).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current World Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

World Bank Performance: The extent to which services provided by the World Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes). The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for World Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) assesses the performance of the Internally Displaced Persons Economic Development Support Project (IDP-EDS) and an additional financing to that project, implemented over the period 2005-2008 and 2008-2011, respectively. The IDP-EDS project was approved by the Board on February 15, 2005, and the additional financing on February 5, 2008. The project was closed on December 31, 2011. The IDP-EDS included an International Development Association (IDA) Credit of US\$11.5 million, and the additional financing and IDA Credit of US\$15.0 million.

The report presents findings based on a review of the Project Appraisal Document (PAD), the Implementation Completion and Results Report (ICR), Implementation Status and Results Reports (ISRs) and other relevant materials. In addition, information for this assessment was obtained from interviews conducted during an Independent Evaluation Group (IEG) mission to Azerbaijan between February 27 and March 10, 2018 with government officials, the project management team from the Social Fund for the Development of IDPs (SFDI), local government authorities, village and community representatives, project beneficiaries, members of the donor community, and World Bank staff. A partial list of people met is included in Annex E (participants in focus groups are not listed).

The report was prepared by Hjalte Sederlof, an IEG consultant, with support during the mission from Humay Guliyeva. The cooperation of all stakeholders, in particular the SFDI management team and the World Bank country office in Baku are gratefully acknowledged.

Following standard IEG procedures, a copy of the draft report will be sent to the relevant government officials and agencies for their review and feedback. Comments received from the borrower will be included in Appendix D of this report

Summary

This Project Performance Assessment Report (PPAR) evaluates the performance of the Azerbaijan Internally Displaced Persons Economic Development Support Project (IDP-EDS, P089751), a community development fund project, and an additional financing (P107613) that was added to the IDP-EDS to respond to additional demand for micro-projects. IDP-EDS was approved by the Board of Executive Directors of the International Development Association (IDA) on February 15, 2005. The size of the IDP-EDS credit was US\$11.5 million. The additional financing was approved by the Executive Directors on February 5, 2008. The size of the additional financing credit was US\$15.0 million. The original closing date for the IDP-EDS was December 31, 2008. With the introduction of additional financing, the closing date of the project was extended by three years to December 31, 2011.

The well-being of internally displaced persons (IDPs) arose as a significant political and policy concern in the wake of the military conflict between Azerbaijan and neighboring Armenia. The conflict lasted from 1988 to 1994 when a cease-fire was declared (which continues to this day). The conflict resulted in the occupation of about 20 percent of Azerbaijan's territory¹. Some 612,000 people, or 15 percent of the Azerbaijani population, became internally displaced, making them one of the highest concentrations of IDPs per capita in the world. In addition, some 200,000 ethnic Azerbaijani returned to Azerbaijan from historically Azerbaijan-populated territories in Armenia. IDPs live in scattered communities throughout Azerbaijan; and although some have been able to integrate into mainstream Azerbaijani society, many still live in collective centers (public buildings, dormitories) and temporary shelters where conditions are harsh and amenities, such as access to clean water, adequate sanitation, and electricity are scarcer than among the non-IDP population. IDPs have few income-generating options and are highly dependent on state transfers and subsidies as their main source of income.

The IDP-EDS project and the additional financing were launched against that background. Initially, a US\$20 million IDA credit was provided under a Pilot Reconstruction Project (PRP - P035770) initiated in 1998 to assist families moving back to pacified areas, including through the provision of financial support, the restoration of infrastructure and services, and support for income generating activities. During implementation of the PRP, a US\$10 million supplemental credit (P7314-AZ) was approved in June 1999 to improve the living conditions of IDPs who were unlikely to return home in the short to medium term. The Supplemental Credit introduced a community development approach, financing small community-level economic and social infrastructure projects (micro-projects) and providing micro-credits in response to requests from IDP communities through a Social Fund for the Development of IDPs (SFDI) established for such purpose. Actual community engagement was limited to identifying community needs, as the micro-project cycle was fully managed by SFDI. This approach was to prove effective in providing micro-project support to IDPs on a countrywide basis.

As an early return to the occupied territories looked increasingly unlikely, the IDP-EDS project was launched in 2005 for a period of three years. It was designed in the model of the PRP Supplemental Credit, with financing channeled through the SFDI, seeking to implement small infrastructure projects and micro-credits to IDP communities throughout the country.

The additional financing was added in February 2008, when all the IDP-EDS funds had been committed, to address the still high demand for micro-projects. With the introduction of the additional financing, community participation was intensified, and communities were now participating not only in micro-project selection, but also in assessing the impact of completed micro-projects on their living conditions. The micro-credit component, which had been fully financed by the government, was dropped, in part, as micro-credit had become widely available in Azerbaijan, and because micro-credit was not easily accessible to poor IDPs with limited assets. Successful income generation would have required a more ambitious support program, including technical assistance, skills development, and access to credit. A third and ongoing project, the Internally Displaced Persons Living Standards and Livelihoods Project (IDP-LSLP, P122943) has expanded the role of the community in the design and monitoring of project implementation. That project was expected to close on December 31, 2016, but has subsequently been extended until 2020 with an Additional Loan.

The original project, IDP-EDS, and the restructured project, additional financing, had partly different objectives. The IDP-EDS was designed to *help improve the living conditions of IDPs and enhance their economic opportunities and prospects for social integration*. The additional financing's objective was to *improve living conditions for IDPs, through demand-driven community-based infrastructure and service micro-projects*. The IDP-EDS had three components: (i) micro-projects; (ii) micro-credits; and (iii) implementation support to finance the operating cost of the SFDI. The additional financing retained the micro-project and implementation support components of the original project. Since the project's development objective was revised with the introduction of additional financing, the PPAR in assessing the project takes into account performance before and after the restructuring, assigning separate outcome ratings, and then deriving an overall outcome rating weighted in proportion to the share of actual credit disbursements made before and after the restructuring. Table 1 below sets out the ratings for the IDP-EDS and the additional financing.

Table 1. IDP-EDS and Additional Financing Ratings

| Criteria | Ratings | |
|---|---------------------------|-------------------------|
| | Original project | Revised project |
| Overall Outcome | Moderately satisfactory | |
| Outcome | Moderately unsatisfactory | Moderately satisfactory |
| Relevance of objectives | Substantial | Modest |
| Relevance of design | Modest | Substantial |
| Efficacy – objective 1 (living standards) | Substantial | Substantial |
| Efficacy – objective 2 (economic opportunity) | Modest | n.a. |
| Efficacy – objective 3 (social integration) | Modest | n.a. |
| Efficiency | Substantial | |
| Monitoring and evaluation | Modest | |

Relevance of project objectives. The relevance of the original project objective is rated **substantial**, and that of the restructured project is rated **modest**. Two of the three objectives of the original project - *improving living conditions* and *enhancing economic opportunities* - were relevant to the IDP situation, and to the priorities of the World Bank and the government. The third objective, *social integration*, was consistent with the World Bank's view of integrating IDPs into host communities, but less so with the government's view of IDPs returning to the occupied territories. Relevance of the restructured project's objective, *improving living conditions*, is rated **modest**; while it addresses a priority, the project is narrowly focused on one issue, where a broader engagement in human and material asset building and explicit social participation could have created better opportunities for IDPs in their current environment.

Relevance of project design. The relevance of design is rated **modest** (original project) and **substantial** (restructured project). Activities under the original project were consistent with *improving living conditions* and *enhancing economic opportunities*, but did not include activities to improve social integration. The objective for the restructured project—improved living conditions—was to be met by providing infrastructure and services for micro-projects.

Achievement of project objectives. Achievement of the original objective is rated **substantial** for the first objective, *improving living conditions*, which largely attained its goals; and **modest** for the second and third objectives - *enhancing economic opportunities* and *social integration*, which both lacked measurable results. Achievement of the restructured objective enhancing economic opportunities is rated **substantial**. Achievement of improved living conditions, which applied to both the original and the restructured PDO, was confirmed by beneficiaries, and validated by SFDI surveys and the IEG's field mission. Given the absence of relevant records, achievement of enhancing economic opportunities through access to micro-credits is unclear: while the full amount of counterpart financing was disbursed, there is no information on beneficiary households, or eventual effects of the credits on household consumption, or on savings and investment behaviors. The original project's impact on social integration was not measured. The overall rating for the project's efficiency is **substantial**.

Project outcomes. Based on the ratings for relevance, achievement of objectives, and efficiency, the outcome rating for the original project is **moderately unsatisfactory**; and the outcome rating for the restructured project is **moderately satisfactory**. The overall outcome for the project is rated **moderately satisfactory**.

World Bank performance. The World Bank's performance is rated **moderately satisfactory**, with quality at entry rated **moderately satisfactory** and quality of supervision **satisfactory**. The former rating reflects design shortcomings, such as including some objectives without key indicators, while the latter rating reflects a pro-active team that worked well with the government and SFDI.

Borrower performance. Borrower performance is rated **moderately satisfactory** overall, with government performance rated **moderately satisfactory** due to a sometimes slow release of funds for micro-project investments. The performance of the implementing agency SFDI is rated **satisfactory**. The agency adapted to changing requirements on community engagement and to technical challenges.

Monitoring and evaluation. Monitoring and evaluation is rated **modest**, reflecting weaknesses in the results frameworks of both the IDP-EDS and the additional financing, notably the absence of robust outcome indicators.

The main lessons to draw from the project assessment are the following:

- Community micro-projects may not require high levels of community mobilization to be successful. The level of community engagement was relatively low in the original IDP-EDS project and somewhat higher in the restructured project. Although no rigorous evaluation of the two alternative approaches was undertaken, anecdotal field-level observations by the IEG team did not detect differences in outcomes or sustainability. When the primary objective is the provision of infrastructure, the level of community mobilization may make less of a difference. However, this may not be true when community mobilization is a primary objective, and when, for instance, social integration is sought.
- Well-targeted micro-projects are likely to successfully improve basic living conditions in a community but may not be sufficient to make a difference in terms of creating economic opportunity and reducing poverty. That requires skills, assets, and access to credit. Simply providing the latter—essentially micro-credit—may not be enough. In the IDP-EDS project, micro-credit was offered and taken up, at the same time being out of reach for many who lacked assets (IDPs did not have property rights), or the necessary skills to find well-paying jobs and take on credit.
- Pursuing social integration can be a legitimate project objective, but it may require participatory processes that can generate positive spillover effects in the broader community. Conventionally, community development designs emphasize community involvement as a central factor in pursuing social integration. This was not the case in the IDP-EDS project, where community involvement was modest and incentives for social integration were absent.
- When World Bank and government objectives don't coincide, project outcomes may not be easily achieved and investments can be at risk. In the IDP-EDS project, the World Bank sought social integration, while the government (at least initially) sought a temporary solution to the IDP situation. This resulted in the social integration objective not being met. At the same time, the World Bank was investing in upgrading housing and related amenities in IDP locations, with its investments risking being temporary rather than permanent.
- Women may be formally present in community committees but may not have a voice. Women were routinely present in community meetings and were a minority presence in micro-project groups. A minimum of 40 percent female representation was required and the requirement was met. However, the presence of women in these gatherings did not mean that they had a voice or were viewed as being useful. Rather, the formal requirement that women be involved in micro-projects did not result in positive change for this group. Instead, it was viewed as a requirement to meet to get a micro-project. More than that may not have been required in a project that focused on providing

infrastructure and related services either permanently or on a temporary basis, but it is important when active engagement by women is being sought as an explicit objective. Under such circumstances, women's participation in community decision-making needs to be more structured, with their interactions in community affairs better defined until it becomes habit.

José Carbajo Martínez
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Independent Evaluation Group

ⁱ A cease-fire was declared in 1994.

1. Background and Context

1.1 Azerbaijan is located in the South Caucasus and has a population of 9.9 million (January, 2018). The economy experienced significant growth over the 2001-2010 period, averaging some 18 percent per year, largely driven by high oil and gas revenues. Per capita gross domestic product (GDP) rose from US\$470 in 1995 to almost US\$6,000 in 2010. In line with high economic growth, Azerbaijan made significant progress towards reducing poverty and boosting shared prosperity. Poverty incidence declined from 49 percent in 2001 to about 9 percent in 2010, and consumption of the bottom 40 percent of households in the income distribution grew by over 2 percent per year. Internal refugees, categorized as internally displaced persons (IDPs) dislocated from their homelands as a result of the armed conflict between Azerbaijan and Armenia are particularly vulnerable: many have not been able to profit from the good times, and poverty incidence among IDPs is estimated at 18 percent; poverty is also estimated to be deeper and more severe than poverty among non-IDPs (World Bank 2015).

1.2 The well-being of IDPs arose as a significant political and policy concern in the wake of a military conflict between Azerbaijan and neighboring Armenia. The conflict lasted from 1988 to 1994 when a cease-fire was declared, and resulted in the loss of more than 300,000 lives, the occupation of about 20 percent of the territory of Azerbaijan, and the displacement of over 1 million people. Some 597,000 people, or 15 percent of the country's population, became internally displaced, not being able to go back to their homes in the occupied territories, making them one of the highest concentrations of IDPs per capita in the world. In addition, some 200,000 Azerbaijani citizens returned from Armenia. IDPs settled in scattered communities throughout Azerbaijan, the majority in peri-urban settings around major cities such as Baku and Sumgayit.

1.3 Although some IDPs have been able to integrate into mainstream society, most live in collective centers (public buildings, dormitories) and temporary shelters where conditions are harsh and amenities such as access to clean water, adequate sanitation, and electricity are scarcer than among the non-IDP population. IDPs also have lower employment rates and higher work inactivity rates than non-IDPs. They have few income-generating strategies and are highly dependent on state transfers and subsidies as their main source of income: this is the case for over 70 percent of IDP households; only 18 percent claim to rely primarily on income from work, mostly in informal, low-skilled jobs. These circumstances are reflected in high levels of anxiety, psycho-social distress, poor health and marginalization, and feelings of exclusion from the opportunities available to non-IDPs (World Bank 2011a). The lives of women and youth appear to be particularly affected by displacement. Women often were active participants in community life in their previous environment, but now find themselves confined to the home (IDMC 2014). A generation of young people has grown up in IDP society with its traditions and longings to go back, and with low skills they face a lack of opportunity, leaving them economically dependent on their families and with few prospects for the future, including starting families of their own (this was revealed in Independent Evaluation Group [IEG] discussions with focus groups).

1.4 Initially, government policy towards IDPs was shaped by expectations of an early return to their homes, once a cease-fire had taken hold and occupied lands were liberated. In the meantime, their situation was regarded as temporary and they were provided with temporary assistance rather than addressing their more permanent livelihood needs. Assistance initially focused on the provision of cash transfers and subsidies and on rebuilding communities along the front line of the conflict, wherever safe return was possible. With the help of the donor community, notably the World Bank, the United Nations Development Programme (UNDP), the United Nations High Commissioner for Refugees (UNHCR), and the European Union (EU), as well as an active international nongovernmental organization (NGO) sector, a *Program for the Resettlement and Reconstruction of the Liberated Areas* was drawn up in 1994 to facilitate the repatriation of IDPs. Over time, however, as an early solution to the conflict became increasingly unlikely, the Government of Azerbaijan modified its approach. Although the temporary status of the IDPs and their return remained (and still remains) a political priority, emphasis was placed on improving their current living conditions and addressing their current economic vulnerabilities in their temporary settlements. In 2001, following a joint government/World Bank survey indicating a growing sense of dissatisfaction and hopelessness among IDPs, the government launched a comprehensive housing plan, drawing on resources from the State Oil Fund, to build a series of new settlements, essentially apartment blocks, for the relocation of IDPs living under the worst housing conditions. By mid-2011, the government's resettlement program had constructed 63 settlements and 29 multi-story apartment buildings, and some 100,000 IDPs had been moved to those settlements. The program of resettlement is ongoing.

1.5 World Bank lending for IDPs reflects shifts in government policy, as lending shifted from initially emphasizing reconstruction, towards improving living conditions, and then towards increased focus on community engagement and capacity building among IDPs. A US\$20 million International Development Association (IDA) credit was provided under a Pilot Reconstruction Project, (PRP) (P035770) initiated in 1998 to finance the first stage of the Resettlement and Reconstruction Program. It provided repatriation support to families, the restoration of infrastructure and services, and support for income-generating activities. It also helped set up a reconstruction and rehabilitation agency (ARRA) in anticipation of further reconstruction after settlement of the conflict. During implementation of the PRP, and in response to the findings of the joint government/World Bank survey, a US\$10 million supplemental credit (P7314-AZ) was approved in June 1999 to support improvements in the living conditions of IDPs that were unlikely to return home in the near term. The credit was to finance small, community-level economic and social infrastructure projects in response to requests from IDP communities through a Social Fund for the Development of IDPs (SFDI) that was established under the project. Although project proposals were to emanate from the communities, they were to be implemented by the SFDI.

1.6 A second project, the IDP Economic Development Support Project (IDP-EDS) that is the focus of the PPAR, was launched in 2005, targeting IDP communities throughout the country that were not benefiting from the government's resettlement program. It was initially cast in the model of the PRP Supplemental Credit, with SFDI financing and the implementation of small infrastructure projects proposed by communities. With the IDP-EDS coming to an end, additional financing (P107613) was introduced at the government's request to better cope with the heavy demand for micro-projects. This time, increased

emphasis was placed on more community involvement in the micro-project cycle. At the same time, the project was restructured to focus exclusively on micro-projects.

1.7 A third and currently ongoing project, the Internally Displaced Persons Living Standards and Livelihoods Project, IDP-LSLP (P122943) expanded the role of the community to participation in design and monitoring of implementation in collaboration with the SFDI. The project also included livelihood support (consisting of youth training and business development, and income generating activities). With its focus on youth, it drew on lessons from an IDP Youth Support Project funded by a grant from the Japanese Social Development Fund (JSDF) and responded to the economic and social marginalization of young IDPs living in new settlements.

1.8 In addition to the three IDP projects mentioned previously, the World Bank has indirectly supported IDPs in Azerbaijan through two rural infrastructure projects, Azerbaijan Rural Investment Project 1 and 2 (AzRIP, Cr. 3912-AZ), which promoted community-based, small-scale rural infrastructure projects and income generating opportunities among the rural population. Table 1.1 summarizes the main features of the World Bank's IDP projects in Azerbaijan.

Table 1.1. World Bank Group IDP Projects in Azerbaijan

| <i>Project</i> | <i>Objective</i> | <i>Components</i> |
|--|---|--|
| Pilot Reconstruction \$20m 1998-1999 | Facilitate repatriation of IDPs Raise standards of living of IDPs | Relocation assistance Housing reconstruction/repair Employment/income generation (agricultural inputs, micro-credit, public works) Refurbishing health centers/schools |
| Supplemental Credit \$10m 1999-2005 | Improve the living conditions and living standards of the most vulnerable groups of IDPs | Repair/rehabilitate infrastructures Institutional support Micro-projects Micro-credits Operational support |
| IDP Economic Development Support \$11.5m 2005-2008 | Improve the living conditions of IDPs and enhance their economic opportunities and prospects for social integration (districts adjoining cease-fire line) | Micro-projects Micro-credits Implementation support |
| Additional Financing \$15m 2008-2011 | Improve living conditions for IDPs, through demand-driven, community-based infrastructure and service micro-projects (nationwide) | Micro-projects Implementation support |
| IDP Living Standards and Livelihood \$50m 2011-2016 | Improve living conditions and increase the economic self-reliance of targeted IDPs | Micro-projects Housing renovations Livelihood support Capacity building |
| Additional Loan \$66.7m 2016-2020 | Improve living conditions and increase economic self-reliance of targeted IDPs | Micro-projects Housing renovation and social and economic infrastructure for IDP settlements Livelihood support (youth training, business development, income generating activities, micro-credit) Implementation support and capacity building |

2. Objective, Design, and their Relevance

Objective

2.1 **Project Development Objective (PDO).** The original PDO stated in the Development Credit Agreement (page 13) was to “help improve the living conditions of IDPs and enhance their economic opportunities and prospects for social integration.” The Project Appraisal Document (PAD) had the same objective.

2.2 With the introduction of additional financing in May 2008², the project was restructured and the PDO revised (Financing Agreement, page 5, and Project Paper, page (i)). The new PDO was to “improve living conditions for IDPs, through demand-driven community-based infrastructure and service micro-projects.”

2.3 The closing date for the IDP-EDS was extended from December 31, 2008 to December 31, 2011, at which time it closed.

2.4 Two objectives were dropped from the restructured project—enhanced economic opportunity and social integration. The former was to be achieved through the provision of a micro-credit, but because micro-credit had become widely available in Azerbaijan, its promotion under the project was no longer considered necessary. The latter was dropped because “social integration [was] a high-level achievement beyond the reach of the project” according to the Implementation Completion and Results Report (World Bank 2012, page 3).

2.5 Key indicators for the original and restructured project are provided in para. 4.1.

COMPONENTS

2.6 The original project had three components:

2.7 **Component 1: Micro-projects** (estimated cost at appraisal US\$10.60 million; additional financing US\$21.29 million; actual cost US\$33.89 million). The component was to finance up to 200 small-scale micro-projects at an average cost per project of about US\$50,000, to improve housing conditions, including access to and quality of infrastructure, services, and utilities. Micro-projects were to be identified and proposed for financing by the beneficiary IDP communities, who were to provide cash contributions of 3 percent of the micro-project costs.

2.8 **Component 2: Micro-credits** (estimated cost at appraisal US\$0.50 million; actual cost US\$0.50 million). The component was to provide financing to partner lending institutions (PLIs) for the extension of micro-credits to support the start-up or expansion of IDP enterprises. Loans had a maximum size of US\$50,000 and their availability was confined to Greater Baku and Sumgait—the two main cities in Azerbaijan—to avoid any territorial overlap with the AzRIP project.

2.9 **Component 3: IDP-EDS Implementation Support** (estimated cost at appraisal US\$1.50 million; additional financing US\$2.90 million; actual cost US\$4.40 million). The

component was to finance the operating costs of the Social Fund for the Development of IDPs (SFDI), related staff training, portfolio development activities, annual audits, and monitoring and evaluation surveys and studies.

2.10 Additional financing of US\$15.00 million, covering the period 2008 to 2011, was approved by the Executive Directors on February 5, 2008. Implementation of the original IDP-EDS project was coming to an end and the additional financing was to support an estimated 250 additional micro-projects, part of which were a backlog of projects proposed during the first three years of implementation of the original project. The average cost of micro-projects was increased from US\$50,000 to between US\$60,000 and US\$80,000, reflecting a gradual increase in construction costs between 2005, when the project first was approved, and 2008. Community involvement was intensified by introducing a community appraisal event seeking feedback on micro-project designs and a community evaluation event allowing the community to take stock of the micro-project six months after completion. The micro-credit component was dropped to focus the restructured project on living conditions of IDPs, which were seen as the primary concern at that time (see para. 2.16).

IMPLEMENTATION ARRANGEMENTS

The project—the original as well as the restructured one—was to be implemented by the SFDI. The SFDI was created in 1999 under the Supplemental Credit to the Pilot Reconstruction Project to finance micro-projects for IDP communities and channel funds to micro-credit institutions for on-lending to IDP micro-enterprises. SFDI is an autonomous public agency reporting to the Cabinet of Ministers. The Deputy Prime Minister functions as chairman of its Board. The Board also includes representatives of the Ministries of Finance, Labor, and Social Protection, and the State Committee for IDPs; the donor community is represented by UNDP, UNHCR, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, and the U.S. Agency for International Development (USAID). At project start-up, SFDI already had a strong track record of successfully implementing micro-projects under the Supplemental Credit. Its responsibilities have grown over time and today it is the main government agency responsible for state-funded IDP housing programs. In IDP micro-projects, its role has evolved from being fully in charge of all aspects of community micro-projects towards a more participatory role that includes engaging and encouraging the IDP community to make choices and take responsibility for them. In line with that, its technical and community mobilizing capabilities have been strengthened: to address a growing workload of micro-projects and allow the SFDI to play a genuinely supportive role in activating IDP communities in the micro-project process. It now has a network of field-level technical and community facilitator staff that was introduced with the restructured project.

Relevance of Objective

2.11 **Relevance of the original PDO is rated substantial.** Its objectives of “improving living conditions” and “enhancing economic opportunities” were aligned with IDP needs, the World Bank’s Country Partnership Strategy (CPS), and government policy. Poverty was widespread and many IDPs were living in dismal circumstances where infrastructure, housing, and service needs were substantial and job opportunities few (World Bank 2010).

The 2005-2011 CPS explicitly included improving living conditions for IDPs in one of its pillars, as did the 2011-2014 CPS, which noted that success in this area was to be measured by “the number of micro-projects that meet IDP community needs and if the number of IDPs generating self-reliant income can be increased.”. The government’s development strategy, set out in its State Program on Poverty Reduction and Sustainable Development 2006-15, had the same goal to improve living conditions and enhance economic opportunity, seen in the government’s financing of micro-credit schemes and housing construction for IDPs.

2.12 The objective of “social integration” was not as straightforward. Both the government and the World Bank viewed IDP status as temporary, but their perceptions of “temporary” differed. The PAD (p. 7) noted that “the primary purpose of the proposed [project] is “... to facilitate the rapid social and economic integration of IDPs into the host communities and contribute to creating the conditions for a better sustainability of their livelihood.” This was an appropriate objective under the circumstances—their living conditions were bad, and returning to the occupied territories seemed unlikely, at least in the short term. Moreover, the community model—mobilizing around a common theme—had the potential for strengthening community cohesion, involving both IDPs and non-IDPs in the community decision-making process. At its strongest, this could involve close community engagement in the full project cycle, from identification to implementation to completion, and subsequent operating and maintenance responsibilities. In this project, however, the community engagement was more modest, essentially limited to project identification with some monitoring and limited maintenance. The dominant role in all phases of the project cycle was played by the SFDI.

2.13 The government supported IDPs with the expectation of their eventual return home. It did not regard their integration into host communities as similarly desirable, since that could weaken the country’s outstanding claim on the still-occupied territories.³ Instead, the government was assisting IDPs through transfer programs and temporary support intended to provide relief until the IDPs went back: while IDPs benefited from World Bank project funding to upgrade infrastructure and services, ownership of the new investments remained with the local (or central) authorities and IDPs were excluded from selling or mortgaging property. Still, their right to use the upgraded infrastructure and services was protected as long as they stayed. The government’s resettlement program to relocate IDPs living under the worst circumstances did provide incentives to remain, but settlements were usually isolated from the general population, continuing the collective accommodation of IDPs separate from the general population, and reinforcing the sense that their residence was temporary. While this may have increased the sense of cohesion among IDPs as a group apart, it also reinforced the impression of IDPs as poor and helpless, hindering their efforts at improving self-reliance (Wistrand 2013).

2.14 **Gender and social integration.** Including women in community meetings and micro-project committees is a conventional feature of the micro-project process, and an important means of activating women in their community. It may have been particularly important in the IDP community, where women (and girls) appear to have been subject to higher rates of abuse than among the general population, reflecting the strained circumstances under which IDP families lived (IDMC 2014) Consequently, women’s participation in the micro-project cycle came to be seen as an important means of drawing

them back into economic and social activity and restoring roles they had had in their communities prior to leaving their homelands (World Bank 2011). Women were supposed to comprise at least 40 percent of a micro-project committee. The minority emphasis — including fewer women than men—was explained during focus group meetings as being a practical matter, as it was considered unlikely that women could effectively intervene with local authorities and contractors.

2.15 Relevance of the revised PDO is rated modest. The revised PDO with its singular focus on “improving living conditions” was relevant to IDP circumstances. It was also consistent with government policy and the World Bank’s CPS for 2005-2011 and 2011-2014 (see para. 2.5). The objective focused on what the government and the World Bank both perceived of as the most urgent priority—improving living conditions. The government had already begun to adjust its approach to the IDP population, albeit not through public policy statements, but by increasingly investing in improvements in their immediate environment, including resettling the most exposed IDPs into newly built facilities financed by the State Oil Fund. The World Bank also refocused its intervention on improving living standards, as the value added in pursuing micro-credit interventions appeared less significant in light of an expanding private micro-finance sector in Azerbaijan at the time; while the pursuit of social integration was recognized as being beyond the capabilities of the project. However, this also resulted in a limited response to the IDP situation, as it ignored the need for earnings opportunities and for interventions that could have addressed the significant skills gaps that IDPs experienced in their new surroundings, and that placed limitations on their search for earnings opportunities and jobs and consequently served as a permanent constraint on the wellbeing of IDP families. This broader approach would subsequently be introduced under the IDP-LSLP project.

Relevance of Design

2.16 The original and revised designs drew on a community-based development model, where IDP communities were to propose small-scale infrastructure investments for financing and then, in varying degrees, participate in their implementation, including with cash or in-kind contributions. The model has the advantage of allowing many small investments to be implemented across the country, improving housing conditions and access to infrastructure services while allowing communities some say in deciding how funds are to be used. Often the community-based model also anticipates that project-initiated participatory processes will have wider spillover effects—building local (public) institutions, enhancing civic capacity, and improving social relations; and these considerations may have been influential in setting the “social integration” objective discussed above. When micro-credit is included, the model also can support small-scale enterprise development and income generation.

2.17 A social fund⁴ was the chosen instrument for implementing the theory of change, with resources (including World Bank funds) channeled through the SFDI to finance micro-projects selected by the community, approved by SFDI, and subsequently implemented by SFDI on behalf of the community. The model was introduced under the Supplemental Credit and applied to the original IDP-EDP project using the same top-down approach as in the Supplemental Credit, where communities propose small investments that are then approved and implemented by SFDI. The top-down project design was influenced by institutional

factors. First, community initiatives were still relatively unfamiliar in a country that had a long experience of strong central government control where the state took responsibility for the well-being of the population. Second, the necessary field-level structures were missing—while the SFDI had the head office implementation capacity, its field-level capacity to mobilize and monitor communities on a national scale was insufficient; NGOs that could have played a key role in activating communities (a role they often play in community development projects), were not prominent in Azerbaijan, where their activities had begun to be circumscribed. And finally, there was a backlog of project proposals from the Supplemental Credit, initially leaving little scope for community engagement at any level.

2.18 Against this backdrop, the original design was unlikely to achieve all its objectives. The activities and outputs under the project were consistent with the stated objectives of “improving living conditions” (micro-projects) and “enhancing economic opportunities” (micro-credit). While the project contributed to the improvement of housing conditions for IDPs, it targeted a different set of beneficiaries than the government’s resettlement program. Instead of focusing on IDPs living in the worst conditions as does the government program, the project was to identify collective centers occupied by IDPs which, with renovation, could offer appropriate and even durable housing solutions. That approach would allow IDPs to remain living in their current places of residence with access to employment and livelihood opportunities in the surrounding area, assuming there was adequate skills matching, as the project did not address the significant skills gaps that limited IDP’s opportunities in the job market to mainly unskilled, often temporary, jobs.

2.19 Project design did not include activities consistent with improving social integration at appraisal. With that objective in mind, the participatory processes envisaged under the original project design may have been too modest to generate the necessary spillover effects that improve social relations between IDPs and non-IDPs and enhance civic capacity. Conventionally, community development designs tend to emphasize the community’s involvement in the project cycle as a central factor to achieving the kinds of social aims that may have been sought by setting “social integration” as a project objective. Moreover, to be successful, the social integration objective must be accompanied by mechanisms that more clearly encourage integration through appropriate incentives. But that was not the case here, reflecting government policies that did not necessarily promote integration. To some extent, the absence of such emphasis was reflected in attitudes observed by the IEG mission in the field. Although there was satisfaction with the investments made, communities saw coordinated community action (or the form it took under the project) as a series of steps requested by SFDI that needed to be accomplished to get the product or service installed, rather than a new way of interacting for the common good. In exceptional cases, where engagement with the SFDI resulted in more systematic planning being introduced, it was the result of initiatives taken by local leaders, either from the IDP community or representing the local authority.

2.20 With the restructured project, only one objective was retained—“improving living conditions” by financing infrastructure and services micro-projects. The community participation function in micro-projects was strengthened by giving a greater role to the community in the project cycle. Now, micro-project selection and design was to be discussed with the community prior to implementation; and after completion, the community was to

provide its own assessment of the outcome a few months later. The SFDI introduced trained field-level agents who worked closely with IDP communities in developing projects and supervising their implementation. It also introduced elements of forward planning into the community—in a number of communities, IEG was able to observe simple planning charts where the community had come together over the setting and ranking of priorities with a longer-term development perspective in mind.

2.21 Relevance of design for the original project is rated **modest**; and for the restructured project, it is rated **substantial**.

3. Implementation

3.1 **The role of SFDI.** The project was introduced into an environment with a governance structure and a tradition of top-down decision-making that shaped the expectations of IDPs about the central role of the government as leader and provider. This also shaped the relationship between the SFDI and the IDP communities, where the former had to take on a leading rather than advisory role and expand its technical capacity to adequately oversee the implementation of a large and growing number of micro-projects on a country-wide basis. This was made all the more necessary as skilled contractors were scarce, and the project started experiencing problems with the technical quality of the work. Ultimately the situation came under control, with only 14 percent of micro-projects subject to audit not conforming to expected quality standards.

3.2 **Community mobilization.** Prior to restructuring, the role of micro-project management committees was modest, according to a mid-term impact assessment by SFDI. This was due to local communities that were unaccustomed to community participation in decision-making; combined with mobilization periods that were too short to adequately operationalize micro-project processes. In the restructured project, the field-level community mobilization function was expanded with field-level monitors and the participatory process became more supported by SFDI. As a consequence, community meetings are said to have become more representative of the broader community and the elected micro-project management committees more closely engaged in monitoring micro-project implementation. However, IEG discussions with community representatives and micro-project committees in the field provided few indications of participation being a priority and committee members seemed to be uncertain of what role they actually had at the time of micro-project implementation.

3.3 **Community financial participation.** The community was to contribute 3 percent of micro-project costs in cash. In practice, this would sometimes prove difficult, especially as the size of micro-projects increased. Instead, a more affordable micro-project would be chosen, or communities would be asked to contribute in kind, primarily through work on micro-projects, or by contributing materials and equipment. The IEG mission noted that in all 15 randomly selected communities that it visited, the 3 percent requirement was consistently fulfilled in cash. In addition, in some communities, mobilizing the community contribution had encouraged collection on a regular basis to build up cash reserves, which were used for a variety of community-wide needs.

3.4 **Mid-term review.** At mid-term review in April 2007, the project was coming to a close: the US\$0.5 million micro-credit component had been fully disbursed and the portfolio was judged to be in good shape; the allocation for micro-projects was also running out, the latter reflecting the effect of inflation on construction costs. Implementation of the IED-EDS was rated satisfactory and all 163 micro-projects were expected to be completed by mid-2008. At the same time, there was a portfolio of about 300 unanswered requests for micro-project assistance received from IDP communities. At the government's request, additional financing was to be introduced to allow SFDI to expand its operations under the ongoing micro-project component to meet the further requests for assistance from IDP communities. The number of IDPs in need of assistance remained substantial, with some 400,000 IDPs suffering from excessively poor housing conditions as they were forced to seek shelter in school dormitories, former sanatoriums, or public buildings. At the same time, support from other donors for the IDP population was decreasing, and the World Bank remained as the only major donor with experience and expertise to help implement large-scale assistance programs for IDPs.

Planned versus Actual Expenditure, by Component

3.5 Total project costs including additional financing was US\$38.79 million. This reflected an increase in the demand for micro-project financing that had been generated by SFDI's outreach activities, both due to a backlog from the Supplemental Credit to the Pilot Reconstruction Project, and due to new demand generated during implementation of the original IDP-EDS project (see para. 2.2). Micro-projects accounted for 87 percent of total project costs and, together with implementation support, for 100 percent of IDA financing. The government financed all micro-credit related activities.

Table 3.1. Planned versus Actual Expenditures (by component)

| <i>Component</i> | <i>Appraisal Estimate (US\$ million)</i> | <i>Additional Financing (US\$ million)</i> | <i>Actual (US\$ million)</i> |
|------------------------|--|--|----------------------------------|
| Micro-projects | 10.60 | 21.29 | 33.89 |
| Micro-credits | 0.50 | 0 | 0.50 |
| Implementation support | 1.50 | 2.90 | 4.40 |
| Total | 12.60 | 24.19 | 38.79 |

SAFEGUARDS COMPLIANCE

3.6 **Safeguard compliance.** The project was classified as "F1" under OP/BP 4.01 Environmental Assessment as it was expected to have no significant or irreversible impacts, and many of the micro-projects were expected to produce environmental benefits. Potentially adverse environmental impacts were mainly associated with the implementation of civil works, including dust, noise, soil, and water pollution; generation of waste materials; waste disposal; and damage to soil by excavation works. An Environmental Management Plan (EMP) covering required environmental screening procedures and assessment of environmental impacts was prepared and applied at micro-project sites. Project compliance with environmental safeguards was rated satisfactory (World Bank 2012).

3.7 There were no involuntary resettlement or land acquisition issues raised by the project, and therefore OP 4.12 was not triggered.

FINANCIAL MANAGEMENT AND PROCUREMENT

3.8 **Financial management.** Financial management arrangements under the project were satisfactory. The SFDI was responsible for financial management arrangements and its accounting and internal control mechanisms were continually assessed as reliable and effective during the implementation. They complied with World Bank financial covenants. Quarterly financial monitoring reports were submitted to the World Bank on time and in an acceptable format. Annual audits were submitted on time except for one year (due to delays in contracting the audit firm) and were always unqualified and acceptable to the World Bank (World Bank 2012 page 15).

3.9 **Procurement.** The ICR (page 16) reported that “procurement undertaken by SFDI under the project was largely satisfactory. However, irregularities in the compliance with procurement procedures were discovered during a procurement post review in early 2007.” In several instances, bidders may have engaged in collusive practices as defined under paragraph 1.14 of the World Bank Procurement Guidelines on “Fraud and Corruption.” The government and SFDI expeditiously and effectively dealt with this problem. Changes in management staff were made with the immediate replacement of the Project Director and Procurement Manager. Procurement procedures were modified as advised by the World Bank, namely making “shopping” more competitive and closer to national competitive bidding procedures. Under guidance from the Regional Procurement Manager, a pool of approved contractors was created who could bid on micro-project contracts. The pool was updated annually and the opportunity to join advertised in the press. The World Bank continued with closer and enhanced supervision of SFDI’s procurement over the remainder of the project, including the annual post-review of contracts and periodic physical inspections of a sample of post-reviewed contracts. It found that the majority of civil works inspected were generally of good quality and executed in conformity with the design documentation, specifications, and bill of quantities approved by SFDI and in full compliance with national legislation, norms and standards.

4. Achievement of the Objectives

4.1 As was the case with the relevance of objectives and design, achievement of objectives will be assessed separately for the original and restructured project objectives. The original PDO will be assessed on the basis of three objectives: (i) improved living conditions; (ii) enhanced economic opportunities; and (iii) enhanced social integration. The restructured PDO will be assessed based on improved living conditions.

4.2 In accordance with the Harmonized Guidelines, the PPAR will use a split rating in reaching an overall Outcome rating for the project. Ratings will be provided both pre- and post-restructuring and then combined based on the disbursement ratio to arrive at an overall Outcome rating.

4.3 **Key indicators.** Key indicators for measuring achievement of the original PDO were the following: (i) overall satisfaction of the IDP community with project-supported initiatives; (ii) number of micro-projects completed; (iii) number of micro-project beneficiaries; (iv) number of micro-credit loans extended by PLIs; and (v) number of active PLI clients. Key indicators for measuring achievement of the restructured PDO were: (i) percentage of micro-projects that achieve their expected results for improvement in living conditions as rated by community members; (ii) number of micro-project beneficiaries; (iii) percentage of beneficiaries who are IDPs; (iv) number and type of micro-projects completed; (v) share of micro-projects chosen through procedures for community involvement; (vi) share of micro-projects in which the percentage of women and youth in micro-project committees is greater than 40 percent; and (vii) percentage of micro-projects rated by community members as having satisfactory levels of participation in the micro-project cycle.

OBJECTIVE 1 (ORIGINAL AND RESTRUCTURED PROJECT): IMPROVING THE LIVING CONDITIONS OF IDPs—SUBSTANTIAL

4.4 “Improved living conditions” are defined as micro-projects that upgraded social and economic infrastructure (World Bank 1999). Table 4.1. provides an overview of micro-projects under the project. Improved living conditions were achieved by financing 411 micro-projects, all proposed by beneficiary communities. A total of 168 micro-projects were completed under the original project, and 243 under additional financing. A target of 200 micro-projects had been set under the original project, and 250 under additional financing. The shortfall under the original project reflects the higher than expected costs for micro-projects; higher costs were one reason for introducing additional financing, as was the need to address the high demand for micro-projects. The average cost of a micro-project was US\$63,000. Completed micro-projects included essential economic and social infrastructure, consisting of rehabilitated or upgraded housing and internal (community) roads, community centers, schools, better sanitation, access to clean water, and electricity (Table 4.1). The total number of beneficiaries was 245,000 persons, 110,000 under the original project, and 135,000 under additional financing. The SFDI estimates that some 80 percent of beneficiaries were IDPs, the remainder non-IDPs. Although earnings were not a direct objective of additional financing, short-term work on micro-projects created temporary jobs for some 2,100 persons, of which an estimated 65 percent were IDPs.

4.5 Drawing on routine monitoring carried out by SFDI during implementation (SFDI 2007) and IEG discussions in the field with SFDI representatives, central and local authorities, and beneficiary communities, stakeholders considered that the project had achieved expected results—reducing the pressures of community living, reducing physical isolation from the larger community, and generating savings in cost and time. The better functioning apartment buildings were said to make for better neighbors; better community roads facilitated access to local centers, markets, and public services; safe water supply reduced the need for water vendors, the cost of water, and the risk of water-borne diseases; and power distribution networks increased safety, extended daylight hours, and facilitated food storage. A community satisfaction survey of 38 randomly selected micro-project sites undertaken by the SFDI at the end of the original project and repeated at the end of the additional financing, found that all surveyed communities were satisfied with the results of their micro-project, with 34 percent highly satisfied (SFDI 2007).⁵

4.6 IEG was able to draw similar conclusions from its observations during field visits and those impressions were reinforced by the fact that investments that had been made seven to 13 years ago were still operational. Ownership of the investments mostly lay with the central or local government—once in place, investments were taken over by the appropriate ministry or local government authority, while in the case of renovated buildings (dormitories and schools), they remained with the previous owner, with the IDP community acting as tenant. Although schools and dormitories were operated by the IDP community, investments that linked to local networks were operated by the local authority. As a minimum, the community's responsibility consisted of paying service fees and alerting district authorities when problems arose. In some instances, notably in the case of internal roads, IEG was able to observe challenges. Routine maintenance was handled by the community, while periodic maintenance (technically more demanding) became the responsibility of local authorities and sometimes may not have been urgent to the local authority, where priorities often lay with major local networks.⁶

4.7 With the introduction of additional financing, the size of micro-projects in some cases increased from US\$70,000 – US\$80,000, offering more opportunity to benefit the broader community, not only IDPs; but also making it more difficult to meet the 3 percent community contribution. To ensure that the focus on IDPs was maintained, a minimum of 30 percent of beneficiaries of a micro-project were to be IDPs. In practice, IDPs would turn out to be the majority of beneficiaries. With the restructured project, the community was given a more prominent role, as it did not only select the micro-project and assess outcomes, it also had a voice in micro-project design and implementation through elected micro-project committees. The role of SDFI was also broadened by staffing the fund with regionally based technical and community specialists to support beneficiary communities.

Table 4.1. Project Results under IDP-EDS (2006-8) and Additional Financing (2008-11) Micro-projects and Micro-credits

| <i>Type of intervention</i> | <i>Completed 2006-2008</i> | <i>Completed 2008-2011</i> | <i>Total</i> | <i>Percent</i> |
|-------------------------------------|--------------------------------|--------------------------------|----------------|----------------|
| Micro-projects | | | | |
| Social infrastructure | | | | |
| Schools | 22 | 32 | 54 | 13 |
| Community centers | 4 | 9 | 13 | 3 |
| Health centers | 0 | 1 | 1 | 0 |
| Housing (Dormitories) | 20 | 34 | 54 | 13 |
| Community tents and supplies | 26 | 62 | 88 | 21 |
| Economic infrastructure | | | | |
| Water supply, wells | 31 | 19 | 50 | 12 |
| Roads | 39 | 74 | 113 | 27 |
| Electricity | 24 | 10 | 34 | 8 |
| Sanitary & environmental | | | | |
| Sanitation | 2 | 2 | 4 | 1 |
| Total | 168 | 243 | 411 | 98(1) |
| Number of beneficiaries | 109,607 | 135,111 | 244,718 | |
| Of which non-IDPs (%) | 20 | 28 | 24 | |
| Micro-credits | | | | |
| Number of micro-credits | 2,560 | n.a. | 2,560 | |
| Number of beneficiaries | 2,560 | n.a. | 2,560 | |
| Average size of micro-credit (USD) | 195 | | | |

(1) Rounding error

4.8 Table 4.1. provides information on activities under the project. The original IDP-EDS project financed 168 micro-projects and benefited an estimated 110,000 individuals, the majority (80 percent) IDPs. The larger additional financing supported 243 projects, benefiting approximately 135,000 individuals, again the majority of those being IDPs. On average, an IDP-EDS micro-project benefited 655 people at an average cost of US\$96 per individual; each additional financing micro-project benefited 555 individuals at a cost of US\$158 per person. This reflected the fact that the average size of micro-projects increased from US\$63,000 under the IDP-EDS, to US\$87,700 under additional financing. The relatively high demand for community tents and related supplies may seem surprising. However, community tents played an important role in drawing the community together for social events or as means of income by renting them out.

OBJECTIVE 2 (ORIGINAL PROJECT): IDPS' ECONOMIC OPPORTUNITIES - MODEST

4.9 Economic opportunities referred to the ability of IDPs to generate household income through small-scale entrepreneurial activities. This objective was to be achieved by facilitating access to micro-credits for IDP-owned enterprises. Earnings as well as cost savings also arose from the implementation of micro-projects, but there are no available data on this.

4.10 Micro-credit was provided by PLIs—two microfinance institutions and seven credit unions—applying their own credit policies for approving credits. The PLIs were selected by SFDI and their activities were overseen by the SFDI. The micro-credit component—US\$0.5 million equivalent—was entirely financed by the government channeling the moneys through the SFDI. The funds were fully disbursed by November 2008, at which time some 2,500 micro-credits had been granted, with an average credit size of about US\$1,900. The project database provides no evidence of the impact of the micro-credit component on the financial situation of participants.

4.11 There is no data available on the impact of micro-projects on economic opportunity or increased household earnings. The main income sources from micro-projects would have been earnings from temporary jobs on works and from rental income by leasing community centers and tents. According to SFDI, some 2,000 persons benefited from works, of which 68 percent were IDPs. There was no data available on rental income—it was an informal albeit routine means of enhancing income in the IDP community. Incremental gains in terms of time savings, less wear and tear on vehicles, lower water costs, and a healthier environment may have been generated from improved access to better roads, water and sanitation, and utilities.

OBJECTIVE 3 (ORIGINAL PROJECT): ENHANCING IDPS' PROSPECTS FOR SOCIAL INTEGRATION - MODEST

4.12 The goal of this objective as indicated in the PAD was to facilitate the social and economic integration of IDPs into host communities, building on the effects of community mobilization and participation in the micro-project investment process. This was most likely to occur in communities where investments benefited both IDPs and the host community, and

where the IDP community with its access to SFDI resources served as a catalyst for the investment. The SFDI's impact assessment confirmed that this happened, with respondents indicating that micro-projects had a positive impact on relations with non-IDPs. Social integration also had another dimension—to draw women into the process as a means of strengthening their role in the community. Micro-project committees were to have 40 percent female participation and, according to the impact assessment, this target was mostly met. It is not, however, clear if that participation, systematically insisted on by SFDI staff and World Bank supervision missions, actually achieved meaningful results. There are no data beyond participation numbers to back this up. The impact assessment, confirmed by IEG in the field, notes that while women were present, “it is not true” (SFDI 2007) that they took an active part in micro-project development or in subsequent maintenance of the investment. As noted earlier under “Gender and Social Integration” (para. 2.16), and as expressed to IEG in the field—there is a preference for men as they are perceived to be more suitable for negotiations with contractors and local authorities.

4.13 No systematic surveys exist that explicitly addressed social integration of the IDP community with non-IDPs or increases in intra-community collaboration. In IEG's focus group discussions with community groups and former micro-project committees in communities that have a mix of IDP and non-IDP members, relations were uniformly described as “good” by both sides. Both recognized the mutual benefit they drew from interacting and undertaking micro-projects that addressed joint priorities and expanded everybody's access to services; and in cooperating in the subsequent operations and maintenance of those investments. Still, the emphasis may have been more on facilitating daily interaction between IDPs and non-IDPs, rather than integration.

4.14 That said, to the extent that IDP status persists, social integration will take on greater importance. Joint development initiatives along the lines introduced in the project may well turn out to be a relatively straightforward, low-cost, public-private means to bring different groups closer together. But in that case, it will require a more determined push and stronger community participation measures than those used under the project. It will also require adjustments at the political and policy levels. The government's resettlement program can already be interpreted as implicitly recognizing the quasi-permanence of displacement and as pursuing more permanent settlement. A shift in IDP policies would further reinforce such a (gradual) shift, especially regarding ownership, school integration, and special IDP benefits outside the general safety nets system.

5. Efficiency

5.1 No economic analysis of the project was done at appraisal. This was attributed to the demand-driven nature of the project, where the selection of micro-projects would be determined only during implementation. At the ICR stage, conventional efficiency measures were applied, including internal rate of return (IRR) calculations and net present value (NPV) estimates for a sample of major micro-project types. Micro-projects accounted for the majority (91 percent) of project expenditures. In the absence of ex-ante analysis at appraisal for comparison, assessing project outcomes purely ex post is difficult. To compensate for

this, the ex post benefit-cost calculations in the ICR drew on comparable micro-projects under the AzRIP project, notably water supply and road rehabilitation works.

5.2 The results of the ex-post analysis indicated that the micro-project investments were economically viable. The overall IRR was 32.7 percent, ranging from 17 percent for electricity to 50 percent for community centers. Compared to the AzRIP, the IRR for potable water in IDP-EDS additional financing was 24.3 percent and 28.8 percent in AzRIP; and 40.3 percent and 27.1 percent, respectively, for road rehabilitation.

5.3 An IEG review of the assumptions underlying the benefit-cost calculations for micro-projects set out in the Economic and Financial Analysis section of the ICR (pages 43 et al.) finds them valid, even with a six-year post-project perspective. The analysis used available project data to determine project costs and identify actual accrued benefits (essentially from time savings, lower travel costs, lower repair costs, and improved health and education outcomes from infrastructure investments). The main assumptions underlying the calculations were a 15-year useful project life and an opportunity cost of capital of 10 percent. Taxes and subsidies were excluded. Sensitivity analysis investigated the effect on overall NPV and IRR in terms of removing time saved used as a proxy for intangibles. Assuming a 20 percent reduction in time saved, pushed the IRR down to 24.5 percent and the NPV down to US\$25.4 million.

5.4 Additional efficiency considerations included elements of design and implementation. Program design and organizational arrangements were straightforward and focused on efficiently defining the most pressing community needs. A rigorous monitoring of contractors maintained quality and helped ensure timely implementation—the project suffered no delays and only 14 percent of micro-projects showed technical deficiencies. The government’s commitment to the project, supportive from the beginning, further increased over time as increasing responsibilities for IDP affairs separate from its role on World Bank projects, were being given to SFDI, which adapted well to its growing responsibilities. There would be problems with the transfer of funds at the government level, leading to temporary delays in disbursements, and the project would run into capacity bottlenecks in contracting. However, these delays did not affect the closing date. A longer-term issue may be the investment in infrastructures that may turn out to be redundant over time, as beneficiaries move away—either back home or into government-funded new settlements.

5.5 The efficiency of the project is rated **substantial**.

6. Ratings

Outcome

6.1 The overall outcome rating is determined by the relative outcomes before and after restructuring (pre- and post-additional financing)

OUTCOME BEFORE RESTRUCTURING

6.2 The relevance of objectives is rated **substantial**. The project was relevant to country needs and World Bank and government priorities with its objectives of improving living conditions and enhancing economic opportunities. This appeared to be less so the case for social integration, where the concept did not seem to be shared fully by the World Bank and the government. Relevance of design was **modest**, addressing two of the three objectives directly. Efficacy is rated **substantial** for objective 1, the micro-project component that largely attained its goals; and **modest** for the two other objectives, which both lacked measurable results. Efficiency is rated **substantial**. Thus, the outcome is rated **moderately unsatisfactory**.

OUTCOME AFTER RESTRUCTURING

6.3 Relevance of objective is rated **modest**—while project focus was placed on the main priority—living standards - it was a narrow focus taking into account the broader challenges of asset generation that IDPs faced in adapting to mainstream society. Relevance of design is **substantial**, rather than high due to weaknesses in the results framework (outcome indicators did not measure changes in IDP conditions as a result of project interventions). Efficacy is rated **substantial**, the rating again influenced by uncertain outcome indicators. Efficiency is rated **substantial**. The outcome is rated **moderately satisfactory**.

OVERALL OUTCOME

6.4 At the time of approval of the additional financing by the Executive Directors, 32 percent of the total credit (original and restructured project) had been disbursed. With a rating of moderately unsatisfactory (value 3), the project prior to restructuring has a value of $3 \times 0.32 = 0.96$; and the project after restructuring with a moderately satisfactory rating (value 4) has a value of $4 \times 0.68 = 2.72$. Together, these sum up to 3.68. Rounding to the nearest whole number, 4, the overall outcome rating is **moderately satisfactory**.

Risk to Development Outcome

6.5 At the time of the IEG ICR review, the risk to the development outcome was rated moderate. Two major risks were noted, both related to micro-projects: (i) physical deterioration of assets from micro-projects due to lack of incentives among IDPs to undertake maintenance; and (ii) the absence of any institutional arrangements in place to ensure operations and maintenance of micro-project investments in case a resolution of the conflict would enable IDPs to return home. On the positive side of risk reduction, was the government's continuing commitment to assisting IDPs.

6.6 Seven years after the project closed, this perspective needs to be nuanced. The government remains strongly committed to the well-being of IDPs. Its program of transfers and subsidies remains in place and it has initiated an extensive resettlement (housing) program for the worst-off. A new World Bank-supported project is underway (the IDP-LSLP), continuing to finance micro-projects that provide access to basic infrastructure and services in communities with large numbers of IDPs, rehabilitation of social and economic

infrastructure in new settlements built before 2005, and expanded livelihoods support for group-based micro-enterprises and youth entrepreneurship. Sustainability of assets created under IDP-EDS has proven to be less of an issue than initially feared in the absence of strong community engagement. A random selection of projects visited by IEG was still functional, in use, and being maintained to a reasonable standard by beneficiaries in collaboration with the local authorities. In the case of infrastructure and utilities, these have been incorporated into local networks and would remain so were the IDPs to return home. In the case of community housing (collective centers and dormitories), schools, and health centers, IDPs only have temporary occupancy rights, and while the buildings are functional, their maintenance appears less robust and sometimes less urgent than for other assets.

6.7 Under these circumstances the Risk to the Development Outcome is rated **low**.

World Bank Performance

QUALITY AT ENTRY

6.8 The project was strategically relevant, as it responded to government and World Bank concerns about the well-being of IDPs. It drew on lessons from the preceding IDP project—the PRP—and more importantly the supplementary credit—extending the supplementary credit model to the IDP-EDS project, while adding a new objective of social integration to the existing objectives of improving living conditions and raising earnings of IDPs, which were maintained. In focusing on IDPs, the project was addressing a particularly poor and vulnerable population group, and in its design of community participation, albeit a modest one, its demand for broad inclusion of community members in the participatory process, including a minimum of female representation, gave a voice to weaker community members. In the SFDI, the project had an implementing agency with capabilities and experience from the supplementary credit to implement projects. The SFDI did not, however, have the skills, nor in some instances the monitoring systems, to implement a more ambitious, demand-driven community project with social integration as one of its pillars.

6.9 The project was not well designed for providing the necessary field-level outreach for effective community mobilization, nor was it well-designed for promoting social integration. In fact, it was not clear to what extent social integration was an explicit government objective and that may have factored into a results framework that makes no explicit mention of social integration, either at the level of objectives or outcomes.⁷ Moreover, while the living standards and earnings objectives were shared by the government, social integration of IDPs into mainstream society had a higher priority in the World Bank team than among government counterparts or IDPs themselves. Certainly, design at entry did not seem to include that aspect, nor did the implementing agency, SFDI, appear to have the necessary skills; they were only added after project restructuring. Likewise, design at entry did not anticipate potential technical bottlenecks that would adversely affect micro-project quality during implementation: discrepancies between demands for larger-than-expected micro-projects and the limited availability of qualified contractors; and the sheer volume of demand for micro-projects.

6.10 Quality at entry is rated **moderately unsatisfactory**.

QUALITY OF SUPERVISION

6.11 Supervision was managed by two task team leaders, and the project initially had more of an emphasis on infrastructure development. Later, after mid-term review and the introduction of different task team leader, the project was restructured and the emphasis was placed on improving living conditions. Micro-credits and social integration were dropped (para. 2.16). A somewhat greater emphasis was placed on community engagement in the selection of micro-projects than had initially been the case. Community participation remained limited: in addition to a community meeting to select micro-projects and a micro-project committee to interact with SFDI and contractors, it now included a joint appraisal event at the beginning of the project cycle and a community evaluation after project completion. SFDI was reinforced with regional community mobilizers and now managed the full process—community mobilization, micro-project design, implementation, and final hand-over.

6.12 Constraints that had arisen during the early stages of project implementation were addressed during mid-term review and in restructuring. Supervision was intensified with a total of 13 missions working closely with the government and SFDI to monitor progress, identify problems, and find workable solutions. The project approach shifted from emphasizing outputs, or products, to micro-project cycle decisions made in consultation with community members. The SFDI was strengthened accordingly—there was an increased focus on capacity building for community development within the organization and its field level presence was increased—through intensive outreach through the media and information sessions; and by the introduction of three field-level technical staff and three social development specialists to work closely with communities in following up on the media and information campaigns. This appears to have been effective—community outreach by SFDI increased awareness of the agency among IDPs and the quality of investments appear to have improved as stated by SFDI staff and IDP communities. This was especially the case in rural areas where community and contractor capabilities tended to be limited. The activation of communities also tended to create a positive dynamic—in field situations encountered by the IEG mission, the communities pointed to their enhanced role in collaborating with SFDI to select projects, monitor implementation, provide the necessary moneys, and take on responsibility for their maintenance, either directly when capacity allowed it, or with the help of the local authority.

6.13 Beyond the interactions between the project and participating communities, the World Bank’s supervision effort also addressed procurement challenges. When the 2007 post-procurement review revealed instances of fraud, the World Bank team worked closely with the government and SFDI to successfully resolve the problem by introducing enhanced procurement procedures and enhanced procurement supervision during the remainder of the project period. The World Bank’s Department of Institutional Integrity in reviewing the case noted that the exploration and supervision efforts by the World Bank team and the SFDI were accurate and adequate.

6.14 Quality of supervision is rated **satisfactory**.

6.15 Together, these ratings lead to an overall rating of World Bank performance of **moderately satisfactory**.

Borrower Performance

GOVERNMENT PERFORMANCE

6.16 The government was committed to the project objectives of improving IDPs' living conditions and enhancing their economic opportunities. This became a priority after surveys in 2002 drew attention to the precarious circumstances under which IDPs were living. The government supported a social fund approach as an effective means to address IDP needs. Its engagement in the IDP issue is further reflected in resource transfers and subsidy programs outside the scope of the project, in its resettlement (housing) program, and in financing of the micro-credit component of the project. It reacted quickly to address fraud (see para. 3.3). Bureaucratic inertia in the flow of funds (see para. 3.8) did lead to some delays in the processing of payments and counterpart contributions under the project.

6.17 Government performance is rated **moderately satisfactory**.

IMPLEMENTING AGENCY PERFORMANCE

6.18 The implementing agency, SFDI, played two distinct roles. It had a central operational function during the period prior to the additional financing, when it played a leading role in all facets of the micro-project cycle, which, at that time, emphasized technical execution rather than community engagement. Observations in the field by IEG indicated that SFDI had a low profile—operating within its terms of reference, it still did not seem to have been well known to IDP communities, although this is difficult to determine some 10 to 15 years after the fact. This changed with project restructuring and the introduction of information and outreach functions, community activation, and regional technical and community advisors. This had a favorable impact on micro-project preparation and implementation, especially in rural areas, where communities and local contractors had limited capacity. IDP communities also were giving recognition to SFDI's work, especially to their field monitors. This observation can be a two-edged sword—monitors often play a key role in activating the community around micro-projects and possibly even improving their quality. At the same time, it may also give them excessive influence on community decision-making. Field observations did not provide much clarity on this beyond indicating that monitors did have the respect of the community and micro-project groups and that their advice was sought beyond the strict limits of their mandate (for instance in advising on job opportunities or local district resources). SFDI headquarters, for its part, stressed the importance of the field monitors in generating micro-project proposals. SFDI headquarters also noted the importance of outcome indicators in their current work (including on the IDP-LSLP), while noting the relative absence in their mind of useful indicators in earlier phases of World Bank projects, including the IDP-EDS. Successful implementing agency performance was also reflected in the increasing responsibilities that SFDI was being given by the government for IDP support activities outside the framework of the project.

6.19 Overall, the SFDI's actions provided an example of how social fund operations can be leveraged at local levels beyond their strict mandate and almost inadvertently serve as a means of activating the community in directions that can go beyond original intentions.

6.20 Implementing agency performance is rated **satisfactory**.

6.21 Overall borrower performance is rated **moderately satisfactory**.

Monitoring and Evaluation

6.22 **Design.** Although the theory of change was straightforward—infrastructure and services micro-projects would improve living conditions and access to business credit would generate income and build assets—there was no specific theory of change to address the objective of social integration. Neither project—the original nor the restructured one—had a results framework where the objectives were well specified for purposes of measurement. Improvements in living conditions were determined by a global figure for the number of completed micro-projects and the number of beneficiaries. Nothing was said about the changes in behavior, knowledge, or conditions that were brought about by the completion of a micro-project or the receipt of a micro-credit. Monitoring of changes in circumstances beyond access to an investment was introduced with the additional financing, when each micro-project was discussed six months after completion with the beneficiary population to determine if and how it was fulfilling their expectations. Before that, the focus had been on outputs—knowing that x number of tents were procured, schools renovated, and so forth.

6.23 Project outcomes for the original project were to be measured by five key indicators for living standards and income generation (i.e. micro-projects and micro-credits). There was no measure for social integration. Outcomes for the restructured project were to be measured by three key indicators for living standards (i.e. micro-projects). All indicators are listed in para. 4.3. IEG has assessed the PDO indicators and found them only partially sufficient to measure the achievement of the original and restructured PDO. Only one of the indicators for the original project—beneficiary satisfaction—is an outcome indicator, while the remainder measure outputs. Moreover, that outcome indicator was too broad to allow a granular analysis of outcomes. The original project included no outcome indicators for either micro-credit or social integration. Key indicators for the restructured project included outcome as well as output indicators. Again, “beneficiary satisfaction” was the main outcome indicator for achieving the PDO of the revised project.

6.24 Monitoring of project progress and achievements was the responsibility of the SFDI. This included a continuous monitoring of technical indicators tracked through the SFDI management information system (MIS); a participatory monitoring and evaluation system; and periodic assessments. Monitoring results were regularly summarized in quarterly and annual reports submitted to the World Bank. The MIS used by SFDI was similar to those used in other social funds, allowing monitoring not only of technical information about micro-project implementation, but also tracking of social indicators; in this instance, the latter was relatively constrained to client satisfaction.

6.25 The project's results framework was reformulated at project restructuring, at which point only the micro-project objective remained in the project. A recurring question was how to regularly evaluate benefits arising from specific micro-projects. In preparation for the mid-term review, SFDI had begun to undertake social impact assessments for randomly selected micro-projects. Such assessments involved discussions with the community about their expectations for the completed project, including beneficiary obligations as well as benefits. While there have been no evaluations of what impact, if any, this practice has on micro-project operations and maintenance, and the longer-term sustainability, of investments, the IEG's impression, after discussions with SFDI and beneficiary communities, is that this post-completion activity does sensitize the community to some responsibility. This may be especially important in the Azerbaijan environment where the community is said to be inclined to see the government as the responsible party. The sustainability of projects and the active engagement in maintenance of communities that IEG met in the field, is not unlikely to be a reflection of this community sensitization about its responsibilities.

6.26 **Utilization.** The findings of technical audits were applied to micro-project designs (as noted in Section 3 on Implementation). The findings of community feedback and related surveys were drawn on to develop the follow-up project to this one—the ongoing IDP-LSL project. The livelihood situation of IDPs had arisen as a particular concern in the surveys and livelihood support and capacity building including skills development were brought in as new project objectives, while the community participation role was strengthened. At the same time, the focus on housing shifted towards providing technically, socially, and economically viable housing options for IDPs,

6.27 Monitoring and evaluation is rated **modest**. While the management information system was adequate for operating the project, the results framework was insufficient—especially early on—to ensure a robust monitoring and evaluation environment and a comprehensive understanding of the project's achievements.

7. Lessons

The main lessons to draw from the project assessment are the following:

- Community micro-projects may not require high levels of community mobilization to be successful. The level of community engagement was relatively low in the original IDP-EDS project and somewhat higher in the restructured project. Although no rigorous evaluation of the two alternative approaches was undertaken, anecdotal field-level observations by the IEG team did not detect differences in outcomes or sustainability. When the primary objective is the provision of infrastructure, the level of community mobilization may make less of a difference. However, this may not be true when community mobilization is a primary objective, and when, for instance, social integration is sought.
- Well-targeted micro-projects are likely to successfully improve basic living conditions in a community but may not be sufficient to make a difference in terms of creating economic opportunity and reducing poverty. That requires skills, assets, and access to credit. Simply providing the latter—essentially micro-credit, may not be enough. In the

IDP-EDS project, micro-credit was offered and taken up, at the same time being out of reach for many who lacked assets (IDPs did not have property rights), or the necessary skills to find well-paying jobs and take on credit.

- Pursuing social integration can be a legitimate project objective, but it may require participatory processes that can generate positive spillover effects in the broader community. Conventionally, community development designs emphasize community involvement as a central factor in pursuing social integration. This was not the case in the IDP-EDS project, where community involvement was modest, and incentives for social integration were absent.
- When World Bank and government objectives don't coincide, project outcomes may not be easily achieved, and investments can be at risk. In the IDP-EDS project, the World Bank sought social integration, while the government (at least initially) sought a temporary solution to the IDP situation. This resulted in the social integration objective not being met. At the same time, the World Bank was investing in upgrading housing and related amenities in IDP locations, with its investments risking being temporary rather than permanent.
- Women may be formally present in community committees but may not have a voice. Women were routinely present in community meetings and had a minority presence in micro-project groups. A minimum of 40 percent female representation was required and the requirement was met. However, the presence of women in these gatherings did not mean that they had a voice or were viewed as being useful. Rather, the formal requirement that women be involved in micro-projects did not result in positive change for this group. Instead, it was viewed as a requirement to meet to get a micro-project. More than that may not have been required in a project that focused on providing infrastructure and related services either permanently or on a temporary basis, but it is important when active engagement by women is being sought as an explicit objective. Under such circumstances, women's participation in community decision-making needs to be more structured, with their interactions in community affairs better defined until it becomes habit.

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² The restructured project was approved by the Executive Directors on May 15, 2008.

³ This was a viewpoint that was often raised during IEG's discussions in the field with officials and international donors.

⁴ A social fund is defined as an agency (or program) that channels funds to communities for small-scale development projects. They typically finance some mixture of socio-economic infrastructure, productive

investments, social services and capacity building in the beneficiary community. They may be demand-driven to varying degrees.

⁵ This is a finding that often occurs in social fund and community development-type projects: when beneficiaries are asked about their levels of satisfaction with a micro-project, the response rate tends to be high—85 percent or more usually declare themselves satisfied (World Bank 2011). A number of factors may intervene—the micro-project has been selected by the community and genuinely reflects a community priority; or the counterfactual may be perceived as “no project,” rather than an alternative one.

⁶ This paragraph is a summary of discussions with local authorities and IDP community representatives.

⁷ More generally, the results framework focused on outputs rather than outcomes.

Appendix A. Basic Data Sheet

IDP ECONOMIC DEVELOPMENT SUPPORT PROJECT (IDP-EDS)

Key Project Data (amounts in US\$ million)

| | Appraisal estimate | Actual or current estimate | Actual as % of appraisal estimate |
|----------------------|--------------------|----------------------------|-----------------------------------|
| Total project costs | 36.79 | 36.79 | 100 |
| IDA/IBRD | | | |
| At appraisal | 11.5 | 11.5 | 100 |
| Additional Financing | 24.19 | 24.19 | 100 |
| Cofinancing | 0.5 | 0.5 | 100 |
| Cancellation | 0 | 0 | - |

Cumulative Estimated and Actual Disbursements

| | <i>FY06</i> | <i>FY07</i> | <i>FY08</i> | <i>FY9</i> | <i>FY10</i> | <i>FY11/12</i> |
|-----------------------------|-------------|-------------|-------------|------------|-------------|----------------|
| Appraisal estimate (US\$M) | | | | | | |
| Actual (US\$M) | | | | | | |
| Actual as % of appraisal | | | | | | |
| Date of final disbursement: | | | | | | |

Project Dates

| | Original | Actual |
|----------------|------------|------------|
| Concept Review | 08/13/2004 | 08/13/2004 |
| Appraisal | 12/02/2004 | 12/02/2004 |
| Board approval | 02/15/2005 | 02/15/2005 |
| Effectiveness | 10/31/2005 | 10/31/2005 |
| Restructuring | | 11/02/2008 |
| | 12/31/2008 | 12/31/2011 |
| Closing date | | |

Staff Time and Cost

| Stage of Project Cycle | Staff Time and Cost (World Bank Budget Only) | |
|------------------------|--|---|
| | No. of staff weeks | USD Thousands (including travel and consultant costs) |
| Lending | | |
| FY04 | 00.00 | 003.84 |
| FY05 | 19.42 | 122.41 |
| Total | 19.42 | 126.25 |
| Supervision/ICR | | |
| FY05 | 00.00 | 001.39 |
| FY06 | 17.84 | 085.13 |
| FY07 | 24.27 | 136.65 |
| FY08 | 29.55 | 126.76 |
| FY09 | 28.00 | 107.94 |
| FY10 | 25.14 | 105.23 |
| FY11 | 28.22 | 102.17 |
| FY12 | 15.31 | 066.91 |
| Total: | 168.33 | 732.18 |

Other Project Data**Task Team members**

| Names | Title | Unit | Responsibility/ Specialty |
|------------------------|--------------------------------------|-----------|----------------------------|
| Supervision/ICR | | | |
| Elkhan Ayyub Abbasov | Consultant | ECSIE-HIS | |
| Salim Benouniche | Lead Procurement Specialist | MNAP R | Procurement |
| Pierre Olivier Colleye | Senior Microfinance Specialist | LCSAR | Micro-Finance Supervision |
| Norpulat Daniyarov | Financial Management Specialist | ECSS03 | Financial Management |
| Joanna Peace De Berry | Senior Social Development Specialist | ECSS4 | Task Team Leader from 2008 |
| Ann Duval | Consultant | CGP | Micro-Finance |

| | | | |
|---------------------------|--------------------------------|------------|---------------------------------|
| Yagut Iltifat Ertenlice | Procurement Asst. | ECCA Z | Procurement |
| Amy Evans | Consultant | EC SHD | Environment |
| Ahmet Gokce | Consultant | EC SO2 | Procurement |
| Gulana Enar Hajiyeva | Environmental Spec. | EC SS3 | Environment |
| Ellen Hamilton | Sr Urban Planner | LC SUW | Task Team Leader 2005 - 2008 |
| Delphine Alberta Hamilton | Senior Program Assistant | EC SS D | Administration |
| Felix A. Jakob | Consultant | EC SS 6 | Operations |
| Ilia Kvitaishvili | Rural Development Specialist | EC SS 1 | Rural Livelihoods |
| Farid Alexander Mammadov | Operations Officer | EC SIE-HIS | Operations |
| Larisa Marquez | Operations Analyst | MNCA 5 | Operations |
| Ida N. Muhoho | Sr Financial Management Specia | EC SO 3 | Financial Management |
| Jesus Renzoli | Consultant | EC SO 2 | Procurement |
| Mio Takada | Rural Development Specialist | SASDA | Social Development Specialist |
| Nijat Valiyev | Infrastructure Specialist | EC SS 5 | Government Relations |
| Ranjit Nayak | Lead Specialist | EC SS 4 | Writer ICR |
| Valerie Morrica | Social Development Specialist | EC SS 4 | Writer ICR |
| Sadaf Lakhani | Consultant | SDV | Writer ICR |
| Alexandru Ursul | Consultant | | Technical |
| Nigar Sadikova | Assistant | EC AA Z | Administration |
| Coral Bird | Program Assistant | EC SS 5 | Administrations |

Source: PAD, ICR

Appendix B. List of Persons Met during IEG Mission

| Name | Role | Organization |
|---|--------------------------------|---------------------------------------|
| World Bank Group | | |
| Joanna Peace De Berry | TTL | World Bank, Nairobi |
| Ellen Hamilton | TTL | World Bank, WDC |
| Ranjit Nayak | ICR TL | World Bank, WDC |
| Zaur Rzyayev | Communications Associate | World Bank, Baku |
| Nijat Valiyev | Sr Infrastructure Specialist | World Bank, Baku |
| Implementing Agency | | |
| Elnur Abbasade | Sr. Community Mobilization Mgr | SFDI |
| Kamran Agamaliyev | Sr Livelihood Manager | SFDI |
| Namig Ibrahimov | Deputy Director | SFDI |
| Government of the Republic of Azerbaijan | | |
| Dovlatkhan Dovlatkhanov | Deputy Chairman | State Committee on Urban Planning |
| Fuad Huseynov | Deputy Head | State Committee for Refugees and IDPs |
| Ali Mammadov | Director | ARRA |
| Ruslan Rustamali | Head of Department | Ministry of Economy |
| Gurban Sadigov | Head of department | Cabinet of Ministers |
| Nasib Karimov | Sr Consultant | Ministry of Labor and SP |
| Minye Nuriyev | Sr Consultant | Ministry of Labor and SP |
| Elnur Suleymanov | Head of Employment Policy | Ministry of Labor and SP |
| Hedayat Verdiyev | Sr Consultant | Ministry of Labor and SP |
| Donors, other | | |
| Furio De Angelis | Country Representative | UNHCR |
| Jalal Aliyev | Chairman | Finance for Development |
| Umud Mirzayev | President | Eurasia Fund |

Appendix C. Field Work Methodology, Field Questions, and Selected Site Visits

IEG conducted a mission to Azerbaijan for two weeks in February – March, including site visits to communities over a total period of three days. The field work sought to gather local stakeholder perceptions about the project implementation process, communities’ role in that process, and sustainability of investments. Attention was also given to perceptions about collaboration between IDP and non-IDP community members in selecting, implementing and administering micro-projects.

Young IDPs, and in particular ones who were born after the exodus, were not part of the community groups that were interviewed, partly because the oldest ones would have been in their early teens during the project period. With no experience of their parents’ homes, and for all practical purposes faced with making a life in their current environment, their views might be different from that of their elders. Here, the JSDF-funded IDP Youth Support Project began to play an important part in addressing this issue in piloting programs that were likely to facilitate entry into jobs for IDP youth. This experience was subsequently drawn on in the IDP-LSDP, which has a strong focus on youth training and business development for IDP youth.

In selecting communities, the IEG applied stratified random sampling: IDPs have settled throughout the country, and the IEG selected three geographic areas that include urban, peri-urban and rural IDP communities – Baku-Sumgayit, Ganja, and Sheki. Within these areas, communities were selected randomly by the IEG. A summary of the principal characteristics of communities visited is set out in Table C.1. All micro-projects were completed between the years 2007-2011 and were still operational with the exception of one internal road project.

Table C.1. Micro-projects visited by the IEG Mission

| District/Community | Micro-project type | Number of beneficiary households | Of which IDP household | Project cost(1) (AZN 000) | Completion Date |
|--------------------|------------------------------|----------------------------------|------------------------|---------------------------|-----------------|
| Sumgay/Saray | Build school | 208 | 208 | 163.7 | 10/2008 |
| Baku/Lachin | Renovate electricity | 231 | 130 | 86.6 | 11/2007 |
| Absheron/Atyall | Renovate internal road | 80 | 70 | 64.9 | 10/2007 |
| Goranboy/Borsunlu | Renovate water supply | 160 | 47 | 64.9 | 12/2007 |
| Baku/May 28 | Renovate internal road | 60 | 47 | 38.7 | 10/2007 |
| Sumgayit/Maraljol | Folding tents | 276 | 101 | 11.8 | 12/2009 |
| Baku/Guschchular | Renovate Community center | 237 | 237 | 58.8 | 6/2010 |
| Agdam/Garvand | Renovate electricity network | 40 | 40 | 57.8 | 5/2010 |
| Yevlakh/Kalbajar | Renovate school | 32 | 27 | 48.2 | 11/2010 |
| Ganji/Khari Bulbul | Renovate dormitory | 63 | 63 | 193.9 | 6/2011 |
| Goy Gol/Murovdagh | Renovate internal roads | 171 | 171 | 91.4 | 3/2010 |
| Barda/Samukh | Renovate electricity | 236 | 84 | 146.6 | 8/2011 |
| Baku//Agdam | Renovate school | 49 | 49 | 59.3 | 10/2009 |
| Barda/Camanli | Build water supply network | 68 | 68 | 96.3 | 12/2011 |
| Goranboy/Gulustan | Renovate health ctr | 98 | 98 | 58.2 | 12/2010 |

(1) In all cases, the community contribution was 3 percent of project costs.

Field questions:

Product: short description

Community characteristics:

- Share of IDPs
- Job situation
- Share of retirees

Participants: number, gender, age composition, how chosen

- Are they a representative community group?
- How were they chosen?
- Do they include IDPs and non-IDPs?
- Were they there at the time of the project?

Project selection

- Do they recall how the project was selected?
- Did SF participate in the selection process? Did SF provide advice or training in applying for a project?
- Did the local government participate in the selection process?

Project implementation

- During project implementation, did the community participate in developing the design and in overseeing implementation?
- Did the community contribute to the project in terms of money, work?

Post project

- Who maintains the project? Who repairs?
- How are maintenance and repairs financed?
- What are the benefits of the project?
- Do you have other projects with SF? Do you intend to?
- Do you have projects with other financing sources? What are maintenance arrangements with them

Is there a village development plan?

- Is it periodically updated?
- Does it form part of any municipal/district development plan?

IDP Housing



IDP housing (dormitories) in Baku post- and pre-renovation. IDPs who have not been relocated or had the benefit of housing renovations financed by World Bank credits, continue to live in collective accommodations separate from the general population, reinforcing their sense that residence is temporary.



Twelve IDP families have lived in a former administrative building in Baku for 22 years (IDMC/N. Wallich)

Renovation of dormitory – Ganji city, Khari Bulbul



The community, which was fully IDP, had arrived in 1994. Its population was 231, all IDPs, and 50 percent were of working age. The majority was subsiding on state subsidies and temporary jobs. The community claimed to have learned about the SFDI around 2008. It had not initially taken any initiative to seek a micro-project, in part as it was waiting for state support to resettle. When that became less likely, the community had turned to SFDI, and intended to do so again for further renovation of buildings around the dormitory. The facility was owned by a local university that had used it as a student dormitory, and the community felt that there was a risk that the university would take it back. Essentially, the community was looking to government assistance with resettlement, or then waiting for opportunity to move back.

Baku city, May 28 community



The community had been in place in 1994, had a population of 380 people, of which 88 percent were IDPs; 66 percent were of working age. It had undertaken one project with SFDI in 2007 – an internal road project to facilitate access to the main road network. The road was now being threatened by a district water supply project that would tear up the road. The district had indicated that they would repair the road again, but the road committee thought that was unlikely – the road was not part of the local road network.

Kalbajar community



The community consists of 32 households, of which 27 are IDP households. The IDP community had drawn on SFDI resources to renovate a school. In that connection, SFDI’s regional community mobilizer had prompted the community to do forward planning. The scheme, present on the wall at all community meetings, has the following contents:

| <i>Problems</i> | <i>Reasons</i> | <i>Possible solutions</i> | <i>Sources of finance</i> | <i>Who would benefit</i> | <i>Timeline</i> |
|-----------------------------|-------------------|---|--|----------------------------------|-----------------|
| The repair of the school | Shortage of funds | 1)Requesting funds from the donor 2)Repair | Community – sustainable community funds Donors – funds and training Municipality/Government – Documents and partly financial | Directly 65% Indirectly -100% | 2016 - 2018 |
| The roads | Unsuitability | Repair of the roads | Community – community funds and voluntary labor Donors – donations Municipality/Government – partial support | 100% | 2017 - 2019 |
| Kindergarten | Unsuitability | Looking for funds | Community – community funds and voluntary labor Donors – grants and subsidized credits Municipality/government – State Oil Fund, Heydar Aliyev Fund, paid by the government | 100% | 2018 - 2019 |
| Community employment center | Does not exist | Looking for funds/ donors | Community – community funds and voluntary labor Donors – donations and grants Municipality/Government – paid by government or municipality | 100% | 2018- 2019 |

Samukh community, Barda

The community consists of 236 households, of which 84 are IDP households. Total population is 994, of which 69 percent are of working age. The community arrived in 1994, and sought SFDI financing in 2011 to renovate the electricity supply. It had sought assistance from other sources before that, but had become aware of SFDI around 2008.

Appendix D. Borrower Comments

Dear Sabina,

Thank you for sharing Draft Project Performance Assessment Report (PPAR) produced by the Mission of World Bank's Independent Evaluation Group (IEG). The PPAR has been reviewed by SFDI team in detail. Despite the SFDI agrees with most of the findings in the report, we would like draw your kind attention to some matters indicated in PPAR. Please, see SFDI's comments below:

Appendix D. Borrower Comments

The mission of the World Bank's Independent Evaluation Group (IEG) visited the Republic of Azerbaijan in February 2018 and met with government stakeholders, Social Fund for Development of IDPs (SFDI), local authorities, members of selected target communities and other beneficiaries of the IDP Economic Development Support Project (IDP-EDS), implemented in 2005-2011. SFDI provided support to IEG team in organization of meetings with 15 target communities randomly identified by IEG for focus group discussions and in-depth interviews to collect qualitative data. SFDI also provided support to the IEG team by sharing all relevant information and available documentation on the projects.

SFDI thanks the IEG team for their work on the Project Performance Assessment Report (PPAR), which was reviewed by SFDI in detail. In general, SFDI considers the PPAR as an important tool for learning lessons and improving performance of future projects. While SFDI agrees with most of the conclusions in the report, we would like to make comments regarding some of the following issues highlighted in PPAR:

1. Difference in the objectives of the parent project and the additional financing;
2. Missing activities to improve social integration;
3. The weakness of the result framework;
4. Limited community engagement in the parent project;
5. Inadequate participation of women in the decision-making process at the community level;
6. Ratings of the parent project and the additional financing

1. Taking into consideration the fact that, due to military conflict initiated by Armenia nearly 600 thousand people were forced to leave their homes the Government of Azerbaijan prioritized provision of basic living conditions to IDPs. Most of the places of residence at that time were inappropriate for living. Therefore, the Government of Azerbaijan channeled most of donors' assistance to improving basic living conditions and both World Bank projects had a common objective – to improve living conditions and social and economic infrastructure in the residential areas.

2. We believe community mobilization process including identification of community needs, resource assessment, preparing strategic action plans, joint implementation of any kinds of works improve social cohesion among community members. Therefore, the SFDI considers support to mixed communities under the projects as an important contribution to social integration. Output indicators clearly show that both IDP and host communities had benefited from activities implemented to build or to improve infrastructure under both projects. Nearly 20 percent of beneficiaries of the parent project and 25 percent of beneficiaries of the additional financing consisted of members of host communities. To summarize all above, it is obvious that, omitting particular activities to improve social integration should not be considered as a weakness of the

project design, as social cohesion among IDPs and host communities members was achieved throughout the implementation of infrastructure micro-projects. Taking into consideration the above justification, rating that was used for relevance of project design can be upgraded from "modest" to upper level.

3. SFDI accepts the probability that there might be inconsistency between projects' objectives and indicators for evaluation of outputs and outcomes. However, based on experience of social development projects some indicators can be collected and analyzed by the project staff and not necessarily included in the results framework. For example, a group of independent experts was involved by the World Bank to collect and analyze certain indicators throughout the project period. Towards the end of the parent project, an independent consultant contracted by the World Bank (Mr. Israil Isgandarov: israil.isgandarov@gmail.com) produced a report based on his research mostly focusing on socio-economic impacts of activities implemented under the parent project. Moreover, qualitative assessments conducted by the project staff on a regular basis indicated that activities implemented under the project have improved the social integration among IDPs and host communities.

4. The primary objective of the original project was to urgently improve basic living conditions and social and economic infrastructure. As the living conditions and provision of basic infrastructure were improving more attentions was given community mobilization process. The number of SFDI community mobilization staff gradually increased to put more emphasis on community development. Along with that, the number of field-based community mobilization staff also increased. SFDI presented community mobilization documentation prepared in line with requirements to the IEG team.

5. Minutes of community gatherings, as well as data on participation of various social and demographic groups in those meetings shows the keen interest of community members to the process. We believe women and youth were always a key element of community engagement. SFDI promotes the participation of women in community meetings continuously. Moreover, throughout the parent project and additional financing many women acted as community group leaders playing a key role in whole micro-project implementation circle. To summarize the above, SFDI does not accept the statements that women's participation in the project was exclusively formal.

6. We would also like to disagree with the overall outcome rating for the parent project. Taking into consideration the fact that various criteria of the parent project and the additional financing were evaluated similarly (3 substantial and 2 modest for the parent project and 3 substantial and 1 modest for additional financing) we cannot understand why the overall outcome was rated moderately unsatisfactory and moderately satisfactory respectively. Are there weightings applied to different criteria?

In addition to the above substantive comments, SFDI has the following technical comments:

1. The number of IDPs should be indicated as 612,000 people in paragraph #2 on page #vii;
2. The text on page #vii, paragraph #2 and on page #1, paragraph #1.1 should be updated in line with presented background information: 200,000 ethnic Azerbaijani people did not hold Azerbaijan citizenship by the time they were forced to leave Armenia. They were granted

Azerbaijani citizenship later, in 1998. Areas which ethnic Azerbaijani people were forced to flee from are historical Azerbaijani- populated territories;

3. The population of Azerbaijan should be indicated as 9.9 million (January 1, 2018) in paragraph #1.1, on page #1;

4. The following corrections should be made in the names and position of people met during IEG mission, in the table in Appendix B:

- Zaur Rzayev
- Elnur Abbaszade – Sr. Community Mobilization Manager
- Kamran Agamaliyev
- Fuad Huseynov – Deputy Head
- Ruslan Rustamli – Head of Department

5. Paragraph #2 on page #35 should be removed from the report as this community was established in 2014 under the Component C- Livelihood Support within the IDP Living Standards and Livelihoods Project (2012-2016).

With best regards,

Namig Ibrahimov,
Deputy Director,
Social Fund for the Development of IDPs
of the Republic of Azerbaijan,