

Document of  
The World Bank

Report No: ICR00001378

IMPLEMENTATION COMPLETION AND RESULTS REPORT  
(IDA-40750 TF-54739 TF-54997)

ON A

CREDIT  
IN THE AMOUNT OF SDR 5.4 MILLION  
(US\$8.0 MILLION EQUIVALENT)

AND A

GLOBAL ENVIRONMENT FACILITY GRANT  
IN THE AMOUNT OF US\$5.0 MILLION

TO THE

REPUBLIC OF AZERBAIJAN

FOR A

RURAL ENVIRONMENT PROJECT

June 28, 2010

Sustainable Development Department  
South Caucasus Country Unit  
Europe and Central Asia Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective March 8, 2010)

Currency Unit = Manat

Manat 1.00 = US\$ 1.24

US\$ 1.00 = Manat 0.81

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AREP	Azerbaijan Rural Environment Project
ARPF	Access Restriction Process Framework
BAT	Business Advisory Teams
CAS	Country Assistance Strategy
CPS	Country Partnership Strategy
CENN	Caucasus Environmental NGO Network
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
GEF	Global Environment Facility
GEO	Global Environment Objective
ha	Hectare
IUCN	The World Conservation Union
MOA	Ministry of Agriculture
MENR	Ministry of Ecology and Natural Resources
NEAP	National Environmental Action Plan
NGO	Non-governmental organization
NP	National Park
NSAPBC	National Strategy and Action Plan on Biodiversity Conservation
ONP	Ordubad National Park
PA	Protected Area
PAD	Project Appraisal Document
PDO	Project Development Objective
PHRD	Japan Policy and Human Resources Development Fund
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PCU	Project Coordination Unit (field branch of PIU)
SDNP	Shah Dag National Park
SCLU	State Committee on Land Use and Cartography
VC	Village Cluster

Vice President: Philippe H. Le  
Houerou

Country Director: Asad Alam

Sector Manager: John Kellenberg

Project Team  
Leader: Doina Petrescu

ICR Team Leader: Tijen Arin

**COUNTRY**  
**Project Name**

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MAP

<b>A. Basic Information</b>			
Country:	Azerbaijan	Project Name:	Rural Environment Project
Project ID:	P066199,P077031	L/C/TF Number(s):	IDA-40750,TF-54739,TF-54997
ICR Date:	06/30/2010	ICR Type:	Core ICR
Lending Instrument:	SIL,SIL	Borrower:	AZERBAIJAN REPUBLIC
Original Total Commitment:	XDR 5.4M,USD 5.0M	Disbursed Amount:	XDR 0.1M,USD 0.9M
<b>Environmental Category: B,B</b>		<b>Focal Area: B</b>	
<b>Implementing Agencies:</b> Ministry of Ecology and Natural Resources			
<b>Cofinanciers and Other External Partners:</b>			

<b>B. Key Dates</b>				
<b>Rural Environment Project - P066199</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	10/10/2001	Effectiveness:	12/19/2006	12/19/2006
Appraisal:	03/01/2005	Restructuring(s):		
Approval:	06/09/2005	Mid-term Review:	12/01/2008	10/06/2009
		Closing:	12/31/2009	12/31/2009

<b>Rural Environment GEF Project - P077031</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	10/10/2001	Effectiveness:	01/31/2007	12/19/2006
Appraisal:	03/01/2005	Restructuring(s):		
Approval:	06/09/2005	Mid-term Review:	12/01/2008	10/06/2009
		Closing:	12/31/2009	12/31/2009

<b>C. Ratings Summary</b>	
<b>C.1 Performance Rating by ICR</b>	
Outcomes	Unsatisfactory
GEO Outcomes	Unsatisfactory

Risk to Development Outcome	High
Risk to GEO Outcome	High
Bank Performance	Unsatisfactory
Borrower Performance	Unsatisfactory

### C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry	Unsatisfactory	Government:	Unsatisfactory
Quality of Supervision:	Unsatisfactory	Implementing Agency/Agencies:	Unsatisfactory
Overall Bank Performance	Unsatisfactory	Overall Borrower Performance	Unsatisfactory

### C.3 Quality at Entry and Implementation Performance Indicators

#### Rural Environment Project - P066199

Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA)	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Unsatisfactory		

#### Rural Environment GEF Project - P077031

Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA)	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA)	None
GEO rating before Closing/Inactive Status	Moderately Unsatisfactory		

### D. Sector and Theme Codes

#### Rural Environment Project - P066199

	Original	Actual
<b>Sector Code (as % of total Bank financing)</b>		
Animal production	15	15
Crops	5	5

Forestry	20	20
General agriculture, fishing and forestry sector	50	50
General industry and trade sector	10	10
<b>Theme Code (as % of total Bank financing)</b>		
Biodiversity	29	29
Environmental policies and institutions	14	14
Other environment and natural resources management	29	29
Rural non-farm income generation	14	14
Small and medium enterprise support	14	14

<b>Rural Environment GEF Project - P077031</b>		
	<b>Original</b>	<b>Actual</b>
<b>Sector Code (as % of total Bank financing)</b>		
Animal production	15	15
Crops	5	5
Forestry	20	20
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<b>Theme Code (as % of total Bank financing)</b>		
Biodiversity	29	29
Environmental policies and institutions	14	14
Other environment and natural resources management	29	29
Rural non-farm income generation	14	14
Small and medium enterprise support	14	14

## **E. Bank Staff**

<b>Rural Environment Project - P066199</b>		
<b>Positions</b>	<b>At ICR</b>	<b>At Approval</b>
Vice President:	Philippe H. Le Houerou	Shigeo Katsu
Country Director:	Asad Alam	D-M Dowsett-Coirolo
Sector Manager:	John V. Kellenberg	Marjory-Anne Bromhead
Project Team Leader:	Doina Petrescu	Agnes I. Kiss
ICR Team Leader:	Tijen Arin	
ICR Primary Author:	Tijen Arin	

Rural Environment GEF Project - P077031		
Positions	At ICR	At Approval
Vice President:	Philippe H. Le Houerou	Shigeo Katsu
Country Director:	Asad Alam	D-M Dowsett-Coirolo
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Project Team Leader:	Doina Petrescu	Agnes I. Kiss
ICR Team Leader:	Tijen Arin	
ICR Primary Author:	Tijen Arin	

## F. Results Framework Analysis

### Project Development Objectives (from Project Appraisal Document)

The Project Development Objective is to improve biodiversity conservation and introduce more sustainable natural resource management and economic activities in two mountainous areas of Azerbaijan, to restore the ecological health and productivity of their natural forests and pastures.

### Revised Project Development Objectives (as approved by original approving authority)

The DO was not revised.

### Global Environment Objectives (from Project Appraisal Document)

To protect biodiversity in two globally significant biodiversity areas within the Caucasus and Zangezur mountains, and introduce and pilot an ecosystem-based approach for Protected Area management in Azerbaijan.

### Revised Global Environment Objectives (as approved by original approving authority)

The GEO was not revised.

#### (a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	Adoption of more modern, productive and sustainable livestock husbandry practices by at least 20% of households in participating villages.			
Value (quantitative or Qualitative)	0%	20%		0%
Date achieved	05/12/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)				



**(b) GEO Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	Establishment of SDNP and enlargement of ONP as indicated in the Project documents.			
Value (quantitative or Qualitative)	No legal instrument for SDNP. ONP area: 15,431ha	Legal instrument for SDNP issued. ONP area: 43,300ha		Legal instrument for SDNP issued. ONP area: 43,300ha
Date achieved	05/12/2009	12/31/2005		12/31/2006
Comments (incl. % achievement)	100% achievement			
<b>Indicator 2 :</b>	Development and initial implementation of zoning and management plans for SDNP and ONP, following a participatory process.			
Value (quantitative or Qualitative)	No zoning and management plans available.	Zoning and management plans complete.		Draft zoning and management plans prepared.
Date achieved	05/12/2005	12/31/2007		12/31/2009
Comments (incl. % achievement)	The PIU reports that Consultants tasked with the development of these plans submitted final versions, but they were not shared with the Bank.			
<b>Indicator 3 :</b>	Midterm and end-of-project surveys indicate significantly increased awareness and understanding of, and support for, national parks and other protected areas (and more broadly, for environmentally sustainable development and natural resource management)			
Value (quantitative or Qualitative)	NA	NA		NA
Date achieved	05/12/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	Social surveys which were to define baseline and target values, and to gauge progress were not carried out. 0% achievement likely due to local communities' raised but unfulfilled expectations.			

**(c) Intermediate Outcome Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	150 or more environmentally friendly, financially sound, small/medium enterprises identified, initiated and publicized (all or most receiving small grants from the project as part of their overall financing package)			

Value (quantitative or Qualitative)	0	150		0
Date achieved	05/12/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	20% achievement. Investment plans were not prepared in time for funding before project closure, but may be used in other investment schemes.			

### G. Ratings of Project Performance in ISRs

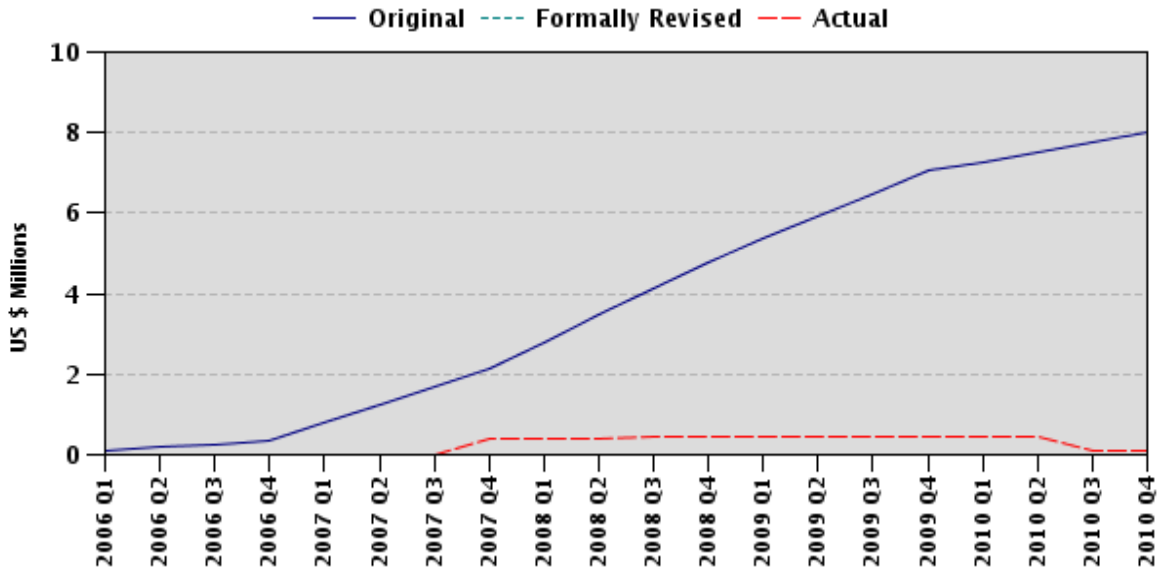
-						
No.	Date ISR Archived	DO	GEO	IP	Actual Disbursements (USD millions)	
					Project 1	Project 2
1	07/29/2005	S	S	S	0.00	0.00
2	08/03/2006	MS	MS	MS	0.00	0.00
3	11/15/2006	MS	MS	MS	0.00	0.00
4	04/18/2007	MU	MU	MU	0.40	0.25
5	11/19/2007	MU	MU	MU	0.40	0.25
6	01/25/2008	MU	MU	MU	0.40	0.25
7	09/24/2008	MU	MU	MU	0.44	0.31
8	01/23/2009	U	U	U	0.46	0.54
9	06/30/2009	MU	MU	MS	0.46	0.61
10	11/13/2009	U	MU	U	0.46	0.65

### H. Restructuring (if any)

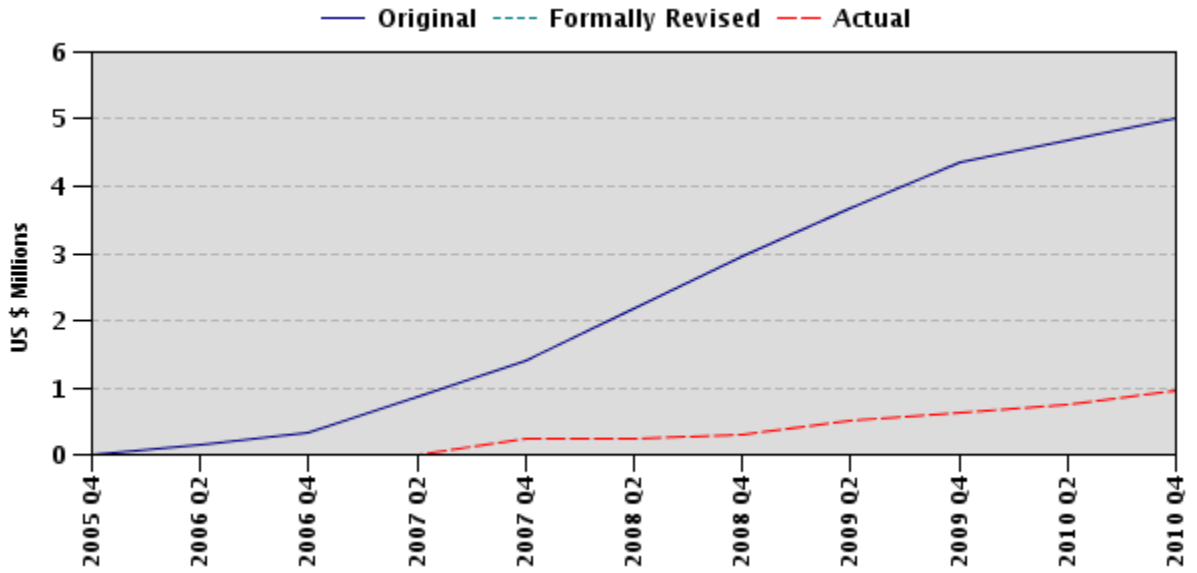
Not Applicable

# I. Disbursement Profile

P066199



P077031



# 1. Project Context, Development and Global Environment Objectives Design

## 1.1 Context at Appraisal

*Country and sector background.* Azerbaijan has high biodiversity, located at the convergence of three bio-geographic regions (Europe, Central Asia, and Asia Minor). The Greater Caucasus Mountain range, which encompasses the Shah Dag National Park (SDNP), and the Lesser Caucasus, which includes the Ordubad National Park (ONP) in the Nakhchivan Autonomous Republic, were identified among five highest priority biodiversity corridors for conservation in the Caucasus region in an assessment by the Critical Ecosystem Partnership Fund. Deforestation and overgrazing, both linked to increased poverty, were key direct threats to biodiversity in these areas.

As indicated in the Project Appraisal Document, although Azerbaijan's overall economy was improving due to oil sector development, most mountain inhabitants still fell under the poverty line of US\$24 per month. When independence ended the reliable supply of highly subsidized gas and electricity, many rural households began harvesting wood fuel from State forests for their energy needs, causing rapid deforestation. Demand exceeded sustainable annual fuel wood yields, by a factor of ten in some areas. In addition, the State leased most high-elevation summer pastures and mid-elevation winter pastures to herd owners on 10-15 year contracts; these pastures were often overexploited by excessive stocking rates. In the Shah Dag area, high-elevation pastures harbored significant biodiversity, but stocking rates were as much as five times higher than official norms—grazing some 2.5 million animals, rather than 500,000.

*Rationale for Bank assistance.* In keeping with the 1998 National Environmental Action Plan (NEAP), the Bank strategy for assistance to Azerbaijan in the environment sector had two main pillars: (i) managing environmental challenges connected with oil industry development, and broader economic development, especially in coastal areas; and (ii) addressing sustainable natural resource management within the context of rural development and conservation of Azerbaijan's key ecosystems. The Azerbaijan Urgent Environmental Investment Project and the regional Caspian Environment Program focused on the first aspect, and supported institutional strengthening for environmental management, including establishing the Ministry of Ecology and Natural Resources (MENR). The Azerbaijan Rural Environment Project (AREP) aimed to continue this institutional support by helping MENR develop capacity for forest, pasture, and protected area (PA) management, including adopting a participatory, multi-zone approach. Under AREP, Azerbaijan received substantial Bank knowledge and experience on protecting and managing mountain forest and pasture ecosystems across Europe and Central Asia and elsewhere. The Bank was able to blend the GEF grant for biodiversity conservation into a larger operation for environmentally sustainable rural development in Project areas, co-financed by International Development Association (IDA) credits, and Japan Policy and Human Resources Development (PHRD) Fund.

*Contribution to higher-level objectives.* NEAP priorities included protecting biodiversity, improving forest, pasture, and agricultural land management, and addressing ecological problems that have regional or global impact. A National Strategy and Action Plan on Biodiversity Conservation, under preparation during Project appraisal, stressed key ecosystem and natural habitat preservation through a well managed PA system, enhanced PA management, and sustainable biodiversity use to contribute to economic and social objectives. The 2003 Country Assistance Strategy (CAS) stressed employment generation and non-oil-based economic growth through improving the business environment, particularly in smaller urban and rural areas; the CAS included an IDA/GEF operation to support participatory approaches to sustainable forests, pastures, and PA management, and to promote sub-regional cooperation in globally significant Caucasus Mountains ecosystems. The Project aimed to support CAS goals by enabling rural communities in Project areas to benefit from improved environmental management, adopt more

profitable and environmentally sustainable livestock production systems, and initiate income-generating activities relating to natural resource use.

### **1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)**

The PDO was to improve biodiversity conservation and introduce more sustainable natural resource management and economic activities in two mountainous areas of Azerbaijan, to restore the ecological health and productivity of their natural forests and pastures.

### **1.3 Original Global Environment Objectives (GEO) and Key Indicators (as approved)**

The GEO was to protect biodiversity in two globally significant biodiversity areas within the Caucasus and Zangezur mountains, and introduce and pilot an ecosystem-based approach for PA management in Azerbaijan.

Key indicators of the GEO and PDO were:

1. Establishment of the SDNP and enlargement of the ONP as indicated in the Project documents;
2. Development and initial implementation of zoning and management plans for SDNP and ONP, following a participatory process;
3. Implementation of pilot community-based tree planting activities (covering 3,000ha by midterm, and 9,000ha by Project end), to assist local communities to meet their need for fuel wood and wood products;
4. Adoption of more modern, productive, and sustainable livestock husbandry practices by at least 20 percent of households in participating villages;
5. 150 or more environmentally friendly, financially sound, small/medium enterprises identified, initiated and publicized (all or most receiving small grants from the Project as part of their overall financing package);
6. Midterm and end-of-Project surveys indicating significantly increased awareness and understanding of, and support for, national parks and other protected areas (and more broadly, for environmentally sustainable development and natural resource management) within Project areas.

**1.4 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification.** The PDO was not revised.

**1.5 Revised GEO (as approved by original approving authority) and Key Indicators, and reasons/justification.** The GEO was not revised.

### **1.6 Main Beneficiaries**

The main Project beneficiaries were MENR, which would receive support to expand and establish national parks to fulfill Azerbaijan biodiversity conservation objectives; and communities in the Shah Dagh and Ordubad protected areas, which would receive grants for environment friendly investments to improve their livelihoods.

### **1.7 Original Components (as approved)**

The Project had four components.

**Component 1: Protected Area Establishment and Management** (US\$8.69m with US\$3.33m IDA, US\$2.12m GEF, US\$1.92m PHRD and US\$1.32m recipient financing). The Component would contribute directly to the GEO by supporting establishment and ecosystem-based management of national parks in two globally significant biodiversity areas. Specifically, the Component would support establishment of the SDNP, expansion of the ONP, and adjacent PAs, through a three-phased approach: (i) national parks are created on specified areas of state-owned

lands, including existing Specially Protected Natural Areas, Forest Fund land and high-elevation meadows; (ii) national parks are expanded through addition of some areas of state-owned pastures for which legislation would be amended to make provision for regulated grazing, resident and other economic uses in accordance with park management plans; and (iii) national parks and PAs are further expanded through incorporation of some areas of municipal or privately-owned lands, without transfer of land ownership, based on voluntary agreements between park administrations and land owners with the aim to reduce park fragmentation and increase local support for the park through direct participation in tourism development and other benefits.

The Project would also support measures to modernize and improve park management, restore degraded areas, develop tourism, and increase stakeholder participation in park management. Specific activities supported under this Component included: delineating and demarcating park and other PA boundaries; providing technical assistance and training for institutional capacity building; undertaking forest and meadow inventories, preparing plans for park zoning, park management, and annual operating plans; implementing management plans, including reforestation high-priority areas, rehabilitating and constructing critical infrastructure for management and tourism, and providing essential equipment; implementing an ecological monitoring system; and providing incremental operating costs.

***Component 2: Community-level Investment in Sustainable Agriculture and Natural Resource Management*** (US\$4.48m with US\$3.15m IDA, US\$0.91m GEF, US\$0.40m PHRD, and US\$0.03m recipient financing). This Component aimed to assist Project-area communities to shift their practices in traditional agriculture and natural resource use towards more modern and efficient approaches that reduce pressure on natural resources and ecosystems. This Component would support the PDO by introducing sustainable natural resource management and economic activities to improve biodiversity conservation.

The Component would target 55 villages<sup>1</sup>, comprising 50 percent of total population in the two national parks. Villages were selected using agreed criteria, including dependence on park area natural resources, hence their implied threat to park resources, and the implied threat posed to their livelihoods if park management restricted their access. Selected villages were grouped into 15 Village Clusters (VCs) based on geographic proximity and topography. Each VC would prepare and implement a Village Cluster Implementation Plan (VCIP), drawing upon a menu of options<sup>2</sup> that would help them move to more ecologically sustainable agricultural and natural resource use practices. Grants ranging from US\$150,000 to US\$400,000 would be provided to finance VCIP implementation; and the Component would provide two fuel-efficient stoves to each village, to be installed in public buildings that are appropriate to demonstrate stove practicality and fuel-savings potential.

An Approval Committee comprising representatives of the MENR, Ministries of Agriculture and Economic Development, the local Executive Committee, and each participating municipality, would approve the VCIPs to ensure alignment with other local development plans and objectives. Detailed implementation arrangements, including flow of funds, procurement of works and goods, would be determined during Project implementation.<sup>3</sup>

***Component 3: Rural Enterprise Development*** (US\$1.95m with US\$0.79m IDA, US\$0.76m GEF, and US\$0.40m PHRD financing). The Component aimed to stimulate Project area

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<sup>1</sup> This included some 40 villages in Azerbaijan Republic and 15 villages in Nakhchivan Autonomous Republic.

<sup>2</sup> The agreed list of eligible activities included: agricultural machinery centers; fruit collection, storage, and drying facilities; milk collection and processing; wool collection and initial processing; small-scale irrigation; artificial insemination; pasture restoration; and biogas production.

<sup>3</sup> Identifying appropriate implementation arrangement also proved difficult under other projects with similar activities. There were plans to find an across-the-board solution applicable to all such projects. A solution was expected to be identified before VCIPs were approved and ready for implementation.

economic diversification by assisting local entrepreneurs to access technical and business information and financing to start or expand small and medium-sized commercial, environmentally sustainable enterprises through technical assistance and matching grants. Like Component 2, activities under this Component would support the PDO by promoting sustainable economic activities to help conserve biodiversity.

The Project would fund small mobile business advisory teams to: (i) raise public awareness for the Project/component; and (ii) help clients identify commercial ventures, assess their viability, and prepare business plans. Under Component 3, matching grants (US\$2,000 to US\$10,000) would be available to start or expand small or medium-sized enterprises; the grant would support up to 60 percent of sub-Project costs; the grantee would contribute 40 percent in cash.

A Grant Administrator (consultancy firm) would provide initial grant application screening against agreed eligibility criteria and submit eligible applications to an Awarding Committee comprising the PIU (chair), representatives of MENR, Ministry of Economic Development, Ministry of Agriculture and Ministry of Youth, Sports and Tourism, to assess and select winning applications. The Grant Administrator would also be responsible for monitoring grants.

**Component 4: Project Management, Monitoring and Evaluation, and Communications** (US\$1.98m with US\$0.73m IDA, US\$1.22m GEF, and US\$0.03m recipient financing). This Component would support efficient and effective project management, essential to achieving the PDO and GEO, including cross-cutting activities such as monitoring and evaluation (M&E), developing and implementing a communications plan, detailed socio-economic studies to improve targeting of project benefits, and facilitating development of a cross-sectoral, multi-stakeholder tourism development plan for the greater Shah Dag area.

**1.8 Revised Components.** The Components were not revised.

**1.9 Other significant changes.** There were no other significant changes.

## **2. Key Factors Affecting Implementation and Outcomes**

### **2.1 Project Preparation, Design, and Quality at Entry**

#### *Project background analysis*

During Project preparation, social, economic, institutional, environmental, and legal analyses were carried out. The legal analysis missed a conflict between the Protected Areas Law and the Land Code, with critical consequences. Focusing on the PA Law, the analysis concluded that multiple uses of PAs were admissible under Azerbaijan law; in fact, the Land Code disallowed this. The Ministry of Agriculture (MoA), the State Committee on Land Use and Cartography (SCLU), and MENR reviewed the draft report but also missed this legal conflict. Furthermore, during Project preparation, the World Bank task team discussed the proposed multiple-use approach in the SDNP with MoA staff, but it was not until negotiations that Government took the strong position that multiple use was inadmissible until the legal discrepancy was eliminated. As a result, a three-phased approach to SDNP and OPN development (described in Component 1) was agreed upon, allowing the Project to proceed to establish the SDNP, at least in “no-conflict” areas. The Bank team insisted on an effectiveness condition: the issuance of the legal instrument establishing the SDNP, because this was seen as crucial to achieve the GEO.

During Project preparation, the Bank team identified private dwellings in the Pırgulu Strict Nature Reserve in areas anticipated to become part of the SDNP core strict-protection zone. Although Government counterparts assured the team that these areas would become enclaves, this issue became controversial when the SCLU identified these dwellings as they were preparing SDNP maps to meet Project effectiveness conditions. Ultimately, the agencies reached agreement that the dwellings constitute enclaves, but the process delayed Project effectiveness.

***Soundness of Project design.*** The Project design was not overly complex in number of components or geographic dispersion. Project components complemented one another well: pressure would be reduced gradually on PA natural resources through managed reductions in grazing, but local communities would be provided with alternative means to generate income. Municipalities supported the Project. Political commitment existed at the highest level of Government, the President of the Republic, to establish the SDNP. During Project preparation, the MENR appeared to be in full agreement with Project concept and objectives, and formally approved the Project Appraisal Document (PAD), but in hindsight, Ministry commitment to the Project appears questionable. Furthermore MENR leadership and capacity to implement participatory multi-zone ecosystem conservation planning was extremely weak. Implementation suffered from inadequate MENR capacity and championship for the Project.

The Project was not ready for implementation due to the conflict between two laws that blocked GEO achievement. The specter that IDA resources could become unavailable, if the preparation phase were to be extended to resolve the legal conflict, led to adopting the above-mentioned effectiveness condition, and the three-phased approach that non public lands would be incorporated gradually into the park. Similarly, approval of an SDNP Charter was imposed as a disbursement condition for investments in the SDNP and the ONP. In addition, consultant selection documents were not ready. During the first year of Project implementation, these consultants were to prepare three major sets of plans for investments—management plans for the SDNP and ONP (Component 1),<sup>4</sup> village cluster investment plans (Component 2), and business plans (Component 3). In hindsight, significant delays in preparing procurement documents managed to derail the implementation schedule to a degree that made the investments in all three Components impossible.

***Participatory processes were adequate.*** The social and environmental assessment involved consultations with about 400 local stakeholders in the Project areas. During Project preparation, consultants and Bank preparation team members held multiple meetings with central Government agencies. Consultants and Bank team members also held meetings with local governments, including Mayors, and numerous other stakeholders, including local community members, private business owners, and NGOs. Draft assessment reports were circulated for comment among Government agencies. The Environmental Assessment and the Access Restriction Process Framework (see Section 2.4) were disclosed publicly.

***Lessons learned from previous operations incorporated in Project design.***

a) *Project design should be focused, limit geographic area and types of activities; pilot new approaches before mainstreaming them at national level.* The Project focused on the Shah Dag and Ordubad areas, rather than addressing the entire national PA system; the objective was to demonstrate approaches that could be replicated elsewhere. Component 2 focused on livestock improvement and related economic activities, rather than supporting a broad menu of potential local development objectives.

b) *Be realistic about what can be achieved within the available time frame and the capacity of implementing agencies, particularly if the Project introduces new ideas, approaches, and skills; or requires substantial strengthening or establishing of new institutional structures, community mobilization and participation, or restricting traditional access to natural resources.*<sup>5</sup> The team incorporated this lesson by designing an implementation schedule that allowed adequate time for key steps, including recruiting personnel, procuring works and goods; carrying out community mobilization, awareness-raising, and participatory planning; building institutional capacity; and

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<sup>4</sup> National Park investment plans would consist of two parts: the first would focus on investments in the existing park territory as defined in the legal instrument establishing the NP in Phase 1; the second would identify investments for areas added to the NPs in Phases 2 and 3, after amendment of the Land Use Code.

<sup>5</sup> This involves implementing an Access Restriction Process Framework



developing business plans. However, the team did not anticipate that the effectiveness condition, set during negotiations, would absorb a substantial amount of time.

c) *Set specific and realistic objectives and interim targets that can be used to evaluate progress; reorient components or implementation approaches if needed.* The Project Results Framework laid out clearly defined, easy-to-monitor annual targets.

d) *Combine enforcement with incentives for effective protection and sustainable management of biodiversity and natural systems.* The Project provided grants to communities living near the National Parks for environment-friendly business and community investments, while strengthening MENR capacity to manage the SDNP and OPN.

e) *Involve key stakeholders early in Project design and preparation activities to ensure ownership and relevance of the design and specific investments to country and local contexts.* Considerable effort was made to involve local stakeholders in Project preparation, including establishing local Project offices. The Project also included measures to ensure communities have opportunities, means, knowledge, and incentives to participate in park management.

f) *Combine financial assistance for SME start-ups/expansion with professional business advice and, to the extent possible, address constraints in the overall business environment (tax and other policies, regulatory processes, infrastructure).* The Project included a substantial investment in technical assistance for PA management, community mobilization, and small enterprise development, because Project preparation studies identified a lack of such services in the Project areas as a major potential constraint to success.

*Several lessons learnt from previous Bank-financed operations could have been integrated in Project design.* Notably previous operations had shown that effectiveness conditions that require enactment of legislation or equivalent Government actions can significantly delay Project effectiveness due to typically lengthy bureaucratic procedures. The Bank team recognized that resolving the discrepancy between the PA Law and Land Use Code would take a long time; hence, it was not an effectiveness condition. However, the team did insist that a condition for effectiveness would be issuance of the legal instrument establishing the SDNP.

***The rationale for Bank intervention was sound.*** The Bank was supporting rural poverty reduction and environmental protection in Azerbaijan; the Bank mobilized GEF and PHRD grant resources and concessionary IDA funds to support the Project PDO and GEO; and was involved in similar operations in Georgia, Turkey, and Armenia, and could transfer valuable experiences.

***Identification of risks and mitigation measures.*** In hindsight, “unfamiliarity implementing multiple-use park and cross-sectoral approach could lead to delays in establishing key institutional structures” was a risk that should have been rated “S” as opposed to “M.” Azerbaijan in general and MENR in particular had few professionals trained in modern PA management. The risk mitigation measure “international TA and study tours” proved insufficient to create enough local understanding and commitment to advance these concepts in the Azeri context.

Lack of inter-ministerial cooperation should have been identified as a significant risk, given that Project preparation demonstrated that this could delay implementation (effectiveness of the GEF Project preparation grant took about 12 months). Even minor conflicts could not be resolved between the MENR and other government agencies whose input was needed for the Project; for example, the conflict arising from the SCLU request that its staff preparing national park maps be paid from Project proceeds contributed to delays in the effectiveness condition. During Project negotiations, the PIU was fully staffed, but delayed effectiveness meant that some staff left when they were uncompensated for a long time.

## **2.2 Implementation**

In May 2005, following a 3.5-year preparation period, the Project was negotiated, and in June 2005, approved by the World Bank Board. Beginning with Project effectiveness, delays marred

implementation. In December 2006, 18 months after Board approval, the SDNP was finally established by Presidential decree, which was a condition of effectiveness. The disagreement on SCLU compensation for generating national park maps was not resolved until winter 2005. By then, severe weather prevented staff from carrying out fieldwork; later, there were lengthy approval procedures for the maps. A disbursement condition under Component 1 was Government approval of an SDPN Charter acceptable to the Bank, for goods and works; this approval took another year until December 2006 because the Ministry of Agriculture strongly opposed including private and municipal land in the national park.

In April 2007, Project ratings for achieving the PDO and the GEO, and for implementation progress were reduced to “Moderately Unsatisfactory.” At that point, investments in national parks depended on consultants preparing zoning and management plans in consultation with local stakeholders. However, consultant selection was severely delayed until late 2008. Although Components 2-4 had no disbursement conditions, key contracts for village cluster investment plans, business plans, and grant proposals (required before corresponding Component investments could be made) were not signed until September 2008, some 40 months after Board approval. These contracts were delayed due to severe understaffing of the PIU; notably, the PIU lacked a qualified procurement specialist during most of 2007-08. Similarly, Coordinators and Assistants to the Coordinators for the regional PIU offices were not hired until late 2008, which violated the Dated Covenant in the Credit Agreement that these positions be filled within three months of Project effectiveness. Some consultant selections and contract awards were held up and reversed, and the PIU Director was diverted from Project activities to other task assignments. The SDNP was not fully staffed until very late in the Project, and during implementation, MENR often balked at supporting local communities.

The Mid-term Review, originally scheduled for December 2008, was postponed to the autumn of 2009 due to significant delays in Project implementation. In autumn 2008, the Bank team considered Project restructuring, including partial cancellation, but rejected this on the grounds that cancelling any Components would jeopardize the other Components.

Late in 2008, Project outputs were a fraction of what was anticipated and the cumulative disbursement ratio stood at 5.7<sup>6</sup> percent for the IDA credit, 10.2 percent for the GEF grant, and 27.6 percent for the PHRD grant. Project PDO/GEO and IP ratings were reduced to “Unsatisfactory.” The November 2008 mission Aide Memoire indicated that the Bank would issue a formal threat of suspension unless specified actions were taken by February 15, 2009. These actions were carried out. On February 24, 2009, the Bank followed up, informing Government that if all activities under a second action plan were completed satisfactorily by May 15, 2009, Project performance ratings would be upgraded and an extension of the Project closing date would be considered to allow time to implement plans for park management, community investment, and rural enterprise development. If these actions were not completed on time, the Project would be closed.

During the first half of 2009, Project performance improved and in June 2009, a Bank mission recommended Project restructuring and a two-year extension of the original closing date of December 31, 2009; the Aide Memoire included a new set of agreed actions. However, by October 2009, prior to discussions with Government on Project restructuring, a Bank mission team found that most of these actions were incomplete. Mission team discussions with consultants preparing SDNP and OPN management plans revealed that even if the Project closing date were to be extended by two years, these plans would not be completed before August 2011, leaving insufficient time for implementation and monitoring.<sup>7</sup> As a result, the Project was closed on December 31, 2009. The final cumulative disbursement rates were 1.3 percent for the IDA

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<sup>6</sup> Equivalent to initial transfer of IDA funds from the Bank to the Special Account, but not necessarily expensed for Project activities.

<sup>7</sup> MENR disagrees and maintains that management plans could have been completed by August 2010.

credit, 16.6 percent for the GEF grant, and 98.2 percent for the PHRD grant. The few outputs that were achieved included establishing SPNP and its charter, developing draft NP management plans, village cluster investment plans, and business plans for small and medium enterprises. No physical investments occurred (Annex 2).

### **2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization**

**Design.** Overall, the M&E framework design was good. Key Indicators (See Section 1.3) were well chosen to measure progress towards the PDO and the measurable part of the GEO (“introduce and pilot an eco-system-based approach for PA management in Azerbaijan”). Key Indicators were measurable with data that would emerge during Project implementation. The Results Monitoring Framework presented in Annex 3 detailed output indicators related to Key Indicators; most included baseline values and target values by year. Social indicators were to be refined based on data from a socio-economic study to be carried out during the first Project year.

**Implementation.** The PIU, understaffed during most of implementation, had no designated M&E staff. Nevertheless, progress was measured in the few Project activities that were implemented; specifically SDNP establishment and ONP enlargement, for which detailed qualitative and quantitative (area) data were documented. Also monitored and documented was progress in selecting qualified sub-projects in Project areas to receive grant funding. However, the socio-economic study planned for the first Project year was never carried out (see section on Social Safeguards). Failure to carry out this study should have downgraded M&E performance to “Unsatisfactory” in the first year after Project effectiveness; instead, it was not until late 2008, when the “marginally satisfactory” rating became “unsatisfactory.”

**Utilization.** Parts of the M&E framework were utilized in gauging Project progress relative to targets, as documented in mission Aide Memoires. However, without the socio-economic study, detailed socio-economic data could not be included in park management planning or used to measure local public awareness and support for Project activities.

### **2.4 Safeguard and Fiduciary Compliance**

#### ***Safeguards***

The Project triggered four safeguards policies: Environmental Assessment (OP 4.01), Involuntary Resettlement (OP 4.12), Natural Habitats (OP 4.04) and the Forest Policy (OP 4.36).

**Environmental Safeguards.** During appraisal, the Project was assessed as having an overall positive environmental impact by conserving globally and nationally significant biodiversity, protecting rare, transboundary ecosystems, and enhancing the sustainability of natural resource use in the Project areas. Main potential environmental impacts identified were as follows:

- Impacts on flora and fauna, land erosion, waste generation, associated with construction and rehabilitation of NP infrastructure;
- Disturbance of wildlife, generation of solid waste, overuse or pollution of surface water caused by potential increased tourism/recreational use of the two national park areas;
- Impacts associated with construction, waste disposal, over-harvesting of vulnerable species, potentially linked to micro-projects under Project Components 2 and 3;

To address these issues, and provide adequate mitigation measures, an Environmental Management Plan (EMP, for OP 4.01, 4.04 and 4.36) was prepared and duly disclosed during Project preparation. The EMP provisions were incorporated in the Project Implementation Manual (PIM), including screening construction activities under Component 1 and preparing environmental management provisions to be incorporated in contracts; screening and preparing EMPs or Environmental Reviews for micro-projects implemented by village clusters (Component 2) and entrepreneurs (Component 3).

During the June 2009 supervision, the Bank team emphasized the importance of following EMP recommendations: (i) while preparing investment and business plans under Components 2 and 3, so that appropriate environmental management documentation is prepared and incorporated in grant proposals, and permits are obtained; (ii) while preparing park management plans; and (iii) while considering options to expand the national parks. During the October 2009 mission, the Bank team discovered that none of the business plans and only some investment plans prepared to date included EMPs, and these required revisions to specify and address micro-project impacts. For example, one village cluster proposed an agro-mechanization center on a river bank but no measures were specified to address potential fuel leakages from machinery. The mission advised the PIU and component consultants on preparing adequate EAs and EMPs, however, the Project closed soon after this mission. Consultants submitted final CVIPs and business plans shortly before the Project closing date, but plan implementation will not be financed.

Environmental safeguard ratings should have been adjusted downward from “Satisfactory” to reflect the findings of the May and October 2009 supervision missions.

***Social Safeguards.*** Under the Project, no villages or households would be relocated and land ownership and rights would not be affected. However, the World Bank Involuntary Resettlement Policy was triggered because establishing, enlarging, and improving enforcement of the two NPs would reduce local people’s access to pastures and forests that are traditionally important for their livelihoods. An Access Restriction Process Framework (ARPF) detailed measures to mitigate short-term Project impacts, including involving local users in park zoning and management planning, phasing in grazing restrictions, and support for developing alternate livestock rearing methods, sources of fuel wood, and income, including employment in the parks. Furthermore, development assistance provided under Components 2 and 3 would be targeted to villages most likely to be affected by resource access restrictions. Village Clusters targeted for assistance under Component 2 were selected based on their proximity to park areas likely to have tighter resource use restrictions. The park management planning process and the Social Mitigation Plan (see below) would indicate whether any additional mitigation measures should be undertaken in these villages.

The PIU would establish a program to assess, monitor, and mitigate socio-economic impacts. This would include: (i) preparing a detailed socio-economic study during the first year (building upon work carried out during Project preparation); (ii) preparing a Social Mitigation Plan to ensure that Project benefits are targeted to people affected by resource access restrictions and vulnerable community groups within the communities, and optimally designed and implemented to help alleviate poverty in these remote, economically depressed areas; (iii) strengthening conflict resolution processes and ensuring adequate grievance procedures; and (iv) refining socio-economic baseline and impact indicators and targets for the Project.

In keeping with the ARPF, the consultant retained to prepare NP management plans for the ONP and the SDNP held consultations with local stakeholders. However, since draft plans were completed in December 2009 and never submitted to the Bank for review, the Bank team had no opportunity to determine whether they reflected the ARPF. In any case, Project implementation never advanced sufficiently to curtail local inhabitants’ access to pastures and forests traditionally important for local livelihoods. A socio-economic study was never carried out and a Social Mitigation Plan was never developed.

### ***Procurement***

The PIU procurement capacity was weak during most of Project implementation. In January 2009, two years after Project effectiveness and repeated alerts from the Bank about inadequate procurement capacity, a Procurement Specialist (PS) finally was hired. Before that, the PIU Director, who had a general understanding of Bank procurement procedures, had assumed responsibility. Therefore, three large QCBS selections to implement the three Project components

were concluded with significant delays. The new PS was unable to attend Bank procurement training, but his practical experience in procurement from previous assignments helped build some PIU procurement capacity and progress was made under CQ and shopping contracts.

The selection of individual PIU consultants, including a Procurement Specialist, experienced significant delays. TOR clearances by MENR were slow. Several candidates were rejected on the grounds that they were unsatisfactory because they had, for example, worked in several PIUs, or appeared to be uncommitted to environmental protection, criteria that were not included in the TORs.<sup>8</sup> Several rounds of advertisements were carried out before an evaluation report was submitted to the Bank. Without a legal covenant that an operational PIU must be in place at all times, the Bank team lacked grounds for Project suspension in response to these actions.

After repeated failures to identify suitable PIU consultants, MENR proposed that staff take a leave of absence to work in the PIU and be compensated from Project proceeds, which would help build MENR capacity. The Bank rejected this proposal because under Bank procurement guidelines this constitutes a conflict of interest, unless Ministry staff had left their positions at least six months prior to working for the PIU.

Another Government refusal to award a contract occurred during selection of a satellite image company. In the summer of 2009, the Government Selection Committee formally submitted their report to the Bank for 'no objection' but subsequently the Ministry cancelled the selection without formal explanation. Informally, the reason given was that the selected company did not perform well in a previous assignment, although this was never substantiated.

### ***Financial Management (FM)***

The FM Specialist and FM assistant positions were not filled during Project implementation until the final year; until then, the PIU Manager carried out FM functions. Project FM rating was downgraded to "Moderately Satisfactory" during the final two years of the Project, due to weak budgeting and staffing arrangements. The PIU FM team was never able to develop a budget system that could help the PIU to improve Project implementation progress, and FM assistant roles and responsibilities were unclear.

The PIU maintained Project accounting records in 1C based accounting software. The system had capacity to generate Bank-required reports. Quarterly financial reports and annual audit reports were submitted punctually, and were satisfactory to the Bank. In general, the PIU FM team focused on maintaining accounting records and paid limited attention to overall Project implementation issues.

## **2.5 Post-completion Operation/Next Phase**

The SDNP and ONP will continue under the MENRs of the Republic of Azerbaijan and the Autonomous Republic of Nakhchivan, respectively. However, effective biodiversity conservation is unlikely unless there are complete multiple zone management plans, park infrastructure based on those management plans, and skilled staff to carry them out. Also, it is unlikely that all three phases of park development will ever be achieved, given the unresolved legislative bottleneck.

Local populations' support for biodiversity conservation hinges on benefits from national parks. Funding for Project-developed village cluster plans and business plans may materialize in the ONP area, according to the Ministry of Environment of the Nakhchivan AR. It would be desirable that these plans also be utilized in the SDNP area, if Government or international funding becomes available.

## **3. Assessment of Outcomes**

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<sup>8</sup> Stated in meetings with Bank supervision teams during missions.

### **3.1 Relevance of Objectives, Design and Implementation**

Establishing the SDPN and enlarging the ONP remain relevant to Azerbaijan's biodiversity protection objective, which is to increase the land area under protection. MENR has increased the area under protection to 18 percent of Azerbaijan's total land area through creating eight national parks, four nature reserves, and four nature sanctuaries, and expanding six sanctuaries and two national parks since 2003. MENR reports that multiple zones are being established in the Goy-Gol, Shirvan, and Hirkan National Parks.

However, significant progress is still needed for the institutionalization of ecosystem-based, multi-use nature conservation, rather than the exclusive strict protection approach. In recent years, MENR's focus appears to have been on expanding the area "under protection" with the belief that securing such legal status would ensure protection and halt the negative effects that the ongoing privatization process may have on critical areas. However, this approach can have the opposite effect by undermining local community support for and participation in conservation. For example, recently the area of the old Zaqatala Strict Nature Reserve was doubled. As a consequence, almost all forest area of the Balakan region is now included in the Zaqatala Strict State Nature Reserve. Although many communities still depend on fuel wood, a traditional use zone was not created. As a result, illegal use is unavoidable and will be counterproductive to biodiversity conservation.<sup>9</sup> It is encouraging that MENR will be working with the German Technical Cooperation Agency GtZ and German Reconstruction Credit Institute KfW to introduce the multi-zone approach to this Pprotected Area.

The Project is relevant to the 2007-10 Country Partnership Strategy (CPS); one of the pillars is "Improving environmental management and furthering the climate change agenda" by cleaning up legacy pollution, reducing carbon emissions, and promoting biodiversity; supporting more sustainable natural resource management in selected areas; and strengthening natural disaster management. The Project PDO and GEO remain globally relevant. Biodiversity conservation and protection of natural habitats and ecosystems can contribute to effective mitigation and adaptation strategies to address climate change.

### **3.2 Achievement of Project Development Objectives and Global Environment Objectives**

The PDO and the GEO were not achieved, as a review of the Key Indicators (under 1.3 above) shows. Only Indicator No. 1, establishment of the SDNP and enlargement of ONP, was fully completed. Under Indicator No. 2, draft zoning and management plans for the SDNP and ONP were prepared, but plan quality and responsiveness to stakeholder concerns could not be ascertained by the Bank team because the plans were never submitted for review. Furthermore, the human and material infrastructure for plan implementation was not established during the Project life. Implementation of community-based tree planting activities (Indicator No. 3) and adoption of modern livestock husbandry practices (Indicator No. 4) were not started. Under Indicator No. 5, more than 150 environmentally friendly, financially sound, small/medium enterprises were identified, but grants could not be extended, because the Project closed before the plans and the implementation mechanisms were finalized. Finally, no baseline and follow-up social survey was carried out, so changes in awareness and support for national parks and PAs could not be measured (Indicator No. 6).

### **3.3 Efficiency**

During Project preparation, an economic analysis and a GEF incremental cost analysis were carried out. The PAD reported an IRR of 26 percent, a net present value of US\$44 million and a cost/benefit ratio of 3.5.<sup>10</sup> The economic analysis appears to be based on financial returns

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<sup>9</sup> The Zaqatala Strict Nature Reserve is not in the Project area.

<sup>10</sup> The PAD also reported a financial IRR, PV, and C-B ratio, although the Project did not involve financial flows to and from a single entity.

accruing to beneficiaries in the Project area, including from increased tourist spending, park visitor fees, maintaining long-term revenues from sheep grazing, (as pasture degradation is halted and reversed), increased yields of cow milk, enhanced crop yields, sustainable wood harvesting and profits from new and enhanced small businesses. The PAD notes that the economic analysis excluded potentially large benefits from reduced flooding and sedimentation, and non-market benefits accruing to expatriates and visitors to Azerbaijan, and the international community as a whole through improved biodiversity.

None of the above benefits materialized due to the limited actions completed during the Project life (Annex 2). The benefits of outputs that were achieved (developing draft NP management plans, village cluster investment plans, and business plans for small and medium enterprises) are impossible to quantify given the uncertainty of implementation. As such, the IRR of the Project is likely below the opportunity cost of capital.

Regarding incremental cost analysis, neither Project contribution to the Baseline Scenario nor the GEF Alternative Scenario materialized. During Project appraisal, an incremental cost analysis was prepared. At Project closure, US\$0.93m from the GEF grant and US\$2.76m PHRD grant had been disbursed (Table 1 in Annex 3). The GEF grant primarily funded Project management costs and partial costs of Component 1. The PHRD grant funded preparation of management plans, and village cluster investment and business plans for villages in Project areas. None of these plans could be implemented before Project closure; the Project did not contribute to the Baseline Scenario, as indicated by the very limited expenditures under Components 2 and 3.

### **3.4 Justification of Overall Outcome and Global Environment Outcome Rating**

#### **Rating: *Unsatisfactory***

Ecosystem conservation and rural poverty reduction remain relevant for Azerbaijan's high mountain areas and for global biodiversity protection. However, very few planned Project outputs were achieved due to implementation delays. As a result, the PDO and GEO were not achieved.

### **3.5 Overarching Themes, Other Outcomes and Impacts**

#### **(a) Poverty Impacts, Gender Aspects, and Social Development**

Poverty reduction in Project areas was implicit to the Project because limited economic opportunities led people to engage in environmentally unsustainable activities. Village-level support to communities and to individual entrepreneurs through grants for environment friendly investments aimed to improve livelihoods and reduce pressure on overexploited pastures and forests. Since Project implementation was unsuccessful, these benefits did not materialize.

#### **(b) Institutional Change/Strengthening**

Developing village plans and enterprise business plans, supported by international technical assistance, increased beneficiary skills to develop such plans, which should be eligible to request funding from other financiers. International consultants' technical assistance to draft zoning and management plans may contribute to future multi-zone national park management planning, if the authorities pursue this.

#### **(c) Other Unintended Outcomes and Impacts (positive or negative)**

Local Coordination Units and consultants working on the project reported to the ICR mission that Project area communities and individuals were disappointed that investment plans developed under Components 2 and 3 of the project would not be financed.

### **3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops**

A beneficiary survey or stakeholder workshop was not carried out.

## **4. Assessment of Risk to Development Outcome and Global Environment Outcome**

**Rating: High**

The PDO and GEO were not achieved.

## **5. Assessment of Bank and Borrower Performance**

### **5.1 Bank Performance**

#### **(a) Bank Performance in Ensuring Quality at Entry**

**Rating: Unsatisfactory**

The Project preparation team carried out thorough social, economic, and physical assessments required for good Project design and consultations with central and Project-area stakeholders. The Project concept and financing packages were strong, and could have achieved significant improvements under more favorable institutional conditions. In the face of the conflict regarding the permissibility of economic activities in PAs, the Bank team decision to break down national park development into three phases was appropriate. However, the Bank did not accurately assess the risk posed by institutional weaknesses and lack of inter-agency cooperation to fulfilling the Project effectiveness condition and Project implementation in general. In hindsight, the Bank should have considered putting the Project on hold until the legislative bottleneck was overcome and the Project had full support from all agencies, before submitting it for Board approval. It would have been useful to have had some village cluster plans and business plans ready during Project preparation and in the pipeline for immediate implementation during the first Project year. Similarly, it would have been very useful if procurement documents for the three key main consultancy assignments had been prepared during preparation so the selection process could have been initiated upon effectiveness.

#### **(b) Quality of Supervision**

**Rating: Unsatisfactory**

The Project had three task team leaders (TTLs) in four years; one TTL for one year, which disrupted the client dialogue and severely undermined supervision efficiency as each new TTL built a learning curve on the Project, stakeholders and issues.<sup>11</sup> Implementation performance, including short-term targets, should have been closely monitored earlier than late-2008. Instead, given the magnitude of Project problems, monthly videoconferences and short-term action plans beginning at Project effectiveness, could have avoided or mitigated some problems. The Project should have been downgraded earlier from “Moderately Satisfactory” to “Moderately Unsatisfactory” and then to “Unsatisfactory”, and the threat of suspension could have been issued earlier, in response to severe delays in PIU staffing, selection of international consultants for the key technical assistance contracts, and appointment of SDNP staff.

In the light of prolonged underperformance during project implementation, Bank messages to Government could have been firmer during the period leading up to the original closing date of December 31, 2009. Specifically, upgrading following the May 2009 mission was premature on progress towards the PDO/GEO to “Moderately Unsatisfactory”, and implementation performance from “U” to “MS”. To avoid misperceptions, the Aide Memoire from the May 2009 mission should have pointed out that the Project would not be extended unless agreed actions were completed by specified dates. Instead, the Aide Memoire indicated that the October 2009 mission would focus on Project restructuring and extension.

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<sup>11</sup> The first TTL was changed due to a change in positions and the second due to a rotation to another region within the Bank.



### **(c) Justification of Rating for Overall Bank Performance**

#### **Rating: *Unsatisfactory***

The Project, while conceptually and financially strong, was not ready for implementation due to conflicts in the legal framework and lack of support from a key ministry, both of which threatened the GEO and PDO. In hindsight, the Bank should have taken the difficult but prudent path of halting Project processing until these obstacles were overcome. During Project implementation, the Bank should have supervised more intensively, limited task team leader changes, and issued a threat to suspend earlier.

## **5.2 Borrower Performance**

### **(a) Government Performance**

#### **Rating: *Unsatisfactory***

During Project preparation, all relevant Government agencies sent letters of support, but full commitment to the Project concept was not achieved. Notably, during Project preparation consultation, Government did not point out that multiple use in PAs, the heart of the original concept, would not be possible since the Land Code disallowed it. Inter-agency conflicts, such as the State Committee on Land Use and Cartography, were protracted rather than resolved cooperatively, which might have indicated lack of commitment. However, municipalities were highly supportive of the Project, as evidenced by their prompt approval of the NP maps.

### **(b) Implementing Agency or Agencies Performance**

#### **Rating: *Unsatisfactory***

MENR performance appears to be a main factor leading to poor Project outcomes. MENR intervention in procurement processes led to delays. The PIU Manager's attention was often diverted to non-Project-related assignments, exacerbating the effects of PIU understaffing, and further delaying implementation. Conflicts with other government agencies led to significant delays. Low technical capacity among MENR staff, limited contribution to Project implementation, and prolonged reviews of technical materials also delayed Project implementation. In addition, already-limited staff capacity was severely overextended because MENR was simultaneously implementing multiple Projects. By contrast, the Nakhchivan Autonomous Republic MENR was highly committed to the Project. Its initiatives allowed timely implementation of Project actions in the ONP area.

### **(c) Justification of Rating for Overall Borrower Performance**

#### **Rating: *Unsatisfactory***

The Borrower appeared to be less than fully committed to the Project, as evidenced by lack of interagency cooperation and lack of ministerial support to implementation. Project area municipalities and the Nakhchivan Autonomous Republic agencies are an exception to this, but their efforts yielded limited impact in a highly centralized decision-making environment.

## **6. Lessons Learned**

- Projects that involve selecting sub-grant beneficiaries using selection criteria and mechanisms, should pilot the selection during Project preparation to identify any weaknesses in the proposed process, and have a pipeline of pilot sub-projects ready to implement promptly upon Project effectiveness. When Government and other potential beneficiaries see immediate Project results, it creates initial momentum for the Project, rather than carrying out seemingly endless studies, even during Project implementation.
- Ensure Project readiness for implementation before taking it to Board. Avoid effectiveness or disbursement conditions that require prolonged bureaucratic procedures, parliamentary

deliberations, or stakeholder negotiations; ensure that conditions are met before Board submission. Ensure that all relevant procurement documents for the first-year consultant selections and procurements are ready by Board submission.

- If Project effectiveness is delayed by more than nine months, downgrade implementation performance to MS/MU and to MU, U or HU if effectiveness does not ensue within 12 months.
- Minimize changes in task team leadership to ensure supervision quality, especially in problem projects.
- Implement close performance monitoring with short-term (90 day and 180 day) performance targets; use monthly video conferences to track performance and address emerging issues before the Project develops serious performance issues. Consider restructuring early if implementation remains slow.
- Look for sustained implementation progress before upgrading Project ratings and decreasing supervision intensity in problem projects.
- Seek temporary assistance or consider part-time contracts to avoid delays in implementation when project procurement or FM positions are unfilled; seek help from other Bank projects in the same or neighboring countries.
- Apply and enforce legal covenants and Bank policies and guidelines on financial management, procurement and safeguards.

## **7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

### **(a) Borrower/implementing agencies**

MENR disagrees with several of the ICR's findings and assessments. MENR comments are reproduced in Annex 7.

**(b) Cofinanciers.** No comments were received from the Embassy of Japan in Baku.

**(c) Other partners and stakeholders** (*e.g. NGOs/private sector/civil society*). Not applicable.

## Annex 1. Project Costs and Financing

### (a) Project Cost by Component (in USD Million equivalent)

<b>Rural Environment Project - P066199 (incl. Rural Environment GEF Project - P077031)<sup>12</sup></b>			
<b>Components</b>	<b>Appraisal Estimate (USD millions)</b>	<b>Actual/Latest Estimate (USD millions)</b>	<b>Percentage of Appraisal</b>
Protected Areas Establishment and Management	7.79	1.80	23.1%
Community-level investment in sustainable agriculture and NRM	3.96	0.49	12.4%
Rural Enterprise Development	1.90	0.70	36.8%
Project Management, M&E, Communications	1.85	0.73	39.5%
<b>Total Baseline Cost</b>	<b>15.50</b>	<b>3.72</b>	<b>21.08%</b>
Physical Contingencies	0.56	0.00	0.00%
Price Contingencies	1.04	0.00	0.00%
<b>Total Project Costs</b>	<b>17.10</b>	<b>3.72</b>	<b>21.8%</b>
PPF	0.00	0.00	
Front-end fee IBRD	0.00	0.00	
<b>Total Financing Required</b>	<b>17.10</b>	<b>3.72</b>	<b>21.8%</b>

### (b) Financing

<b>P066199 - Rural Environment Project (Incl. P077031 - Rural Environment GEF Project)</b>				
<b>Source of Funds</b>	<b>Type of Financing</b>	<b>Appraisal Estimate (USD millions)</b>	<b>Actual/Latest Estimate (USD millions)</b>	<b>Percentage of Appraisal</b>
Borrower	Cash	1.38	0.02	1.4%
International Development Association (IDA)	Credit	8.00	0.10	1.3%
Global Environment Facility (GEF)	Grant	5.00	0.93	18.6%
JAPAN: Ministry of Finance - PHRD Grants	Grant	2.72	2.67	98.2%

<sup>12</sup> The GEF Project was fully blended in the IDA Project.

## Annex 2. Outputs by Component

### *Component 1: Protected Area Establishment and Management*

*Park Expansion.* Of the three phases envisaged at appraisal, only Phase 1, namely park establishment and expansion, was completed at Project closure. The area of SDNP was increased from the baseline of 21,000 ha to 115,000ha, which compares favourably with the target of 112,814 ha. In ONP, the target for expansion over the life of the Project was 43,300 ha; at Project closure, the park area included 42,797ha.

Phase 2 was underway at Project closure whereby areas of state-owned pastures were being added to the existing parks. However, legislative amendments to provide for regulated grazing, resident and other economic uses in these areas were still pending awaiting Presidential approval. Furthermore, the final Bank supervision mission assessed that the “pastures” being added to the SDNP had no particular significance for biodiversity protection or ecological functions (erosion control, ecological restoration, migration corridors, etc.) as indicated at Project appraisal. Instead, they were the highest-elevation grazing areas on marginal lands, often just exposed rock with limited vegetation, that were not being leased for grazing domestic animals by the Ministry of Agriculture. The Bank team questioned the value of these lands for biodiversity conservation when compared to the overall distribution of available pasture lands in the SDNP Project area. However, MENR disagreed with this assessment.

Phase 3, which was to involve expansion of parks and PAs through incorporation of some areas of municipal or privately-owned lands had not commenced by Project closure due to lack of an enabling legislative environment.

*Park Management.* In early 2009, preliminary steps towards developing zoning and park management plans were completed by the Project-financed consultant team. Initial biodiversity inventories, rapid ecological assessments and pasture and forest inventories were also developed based on available information and statistics that were to provide the basis for zoning plans for the parks. However, technical background data were never made available to the international consultants, and could not be covered by rapid ecological assessments; other data never became available, for example, on the broad picture of wildlife winter and summer ranges and the interaction between wild and domesticated animals.

Available raw data was of limited quality so the Project made provisions for satellite imagery of the parks to verify, strengthen, and fill existing data gaps. During the June 2009 mission, it was agreed that this process would be completed by September/October 2009. In the event, MENR overruled consultant selection for satellite imagery procurement, which was a setback for Project implementation.

Without satellite imagery, data analyses were impossible so the Project lacked comprehensive ecological information on the Project component area. This information was critical to prepare zoning plans, and subsequently to develop the five-year park management plans.<sup>13</sup>

*Park Infrastructure.* A study was completed on national park infrastructure identification, design, prioritization, and supervision, including the bill of quantity and cost estimates. The study detailed infrastructure such as roads, bridges, retaining walls, and culverts; superstructure such as buildings; and specified requirements for construction and supervision work for SDNP and ONP.

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<sup>13</sup> The MENR ICR states that consultants prepared zoning and management using Landsat satellite images and submitted them to the PIU in December 2009; the Bank team had no chance to review those plans. However, during the October 2009 mission, discussions with the same consultant indicated that obtaining new satellite images would require a revised delivery date for management plans in early 2011.

However, works design or construction never began.<sup>14</sup> In addition, because no equipment needs were ever identified, procurement was never initiated.<sup>15</sup>

*SDNP Staffing.* Staffing of the SDNP was incomplete right up until Project closure, which hampered implementation of this Component. In July 2009, a SDNP Director was appointed, but the Bank mission considered the appointee under qualified to serve as a permanent Director.

*Training.* Key personnel were lacking so capacity building and training activities associated with forestry and pasture management could not be undertaken, and these actions were critical to develop suitable park management plans. In April 2009, some training was provided on preparation and implementation of park management plans. However, the October 2009 mission Aide Memoire notes that attendance was poor and participants were staff not directly associated with the NPs.

*Other Activities.* During the June 2009 mission, MENR requested that US\$1.0 million be allocated under this Component for forestry activities. This would have included, inter alia, support for seedling greenhouses, two efficient wood-burning stoves installed in each village, and afforestation in the SDNP and ONP, in part to meet fuel wood needs for local people. The Bank agreed to meet this request, but no actions were taken to implement this activity. Similarly, the PIU took no action in response to the Minister's June 2009 request to undertake a socio-economic study and public awareness campaign.

Based on the above status, the Bank team concluded that there were insufficient grounds to upgrade and then restructure and extend the Project. Furthermore, the team maintained that even a two-year project extension would prove insufficient, to complete management plans, initiate implementation, and monitor the range of planned activities. The PIU and MENR disagreed with this assessment and maintained that outstanding activities could have been completed in 2010, if the Bank had granted an extension.

### ***Component 2: Community-level Investment in Sustainable Agriculture and Natural Resource Management***

In September 2008, Component implementation began, nearly three years after Project effectiveness, when the consultancy contract was awarded to a firm that provided three Village Cluster Planning Teams (VCPTs): two VCPTs for the SDNP area, and one for ONP area. The VCPTs were responsible for the following: (i) mobilize local people in the VCs and raise awareness/support for the Project; (ii) assist the VCs to develop Concept Plans and Village Cluster Investment Plans (VCIPs) based on guidelines provided in the Project Implementation Manual; (iii) identify appropriate implementing agency for the VCIPs; and (iv) prepare Grant Agreements to implement the VCIP.

Village Cluster populations in SDNP and ONP supported anticipated Component activities. The consultants held a series of meetings with VC communities to provide information on Project-provided types of assistance, potential implementation arrangements, terms of participation, and individual and community roles and responsibilities for implementation.

The October 2009 mission reviewed the eight VCIPs and noted two primary deficiencies:

- (a) *Implementation Arrangements.* VCIPs did not specify the institutional mechanisms for undertaking sub-project implementation. After extensive discussions, it was agreed that

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<sup>14</sup> During the June 2009 mission it was agreed that by July 2009 the PIU would issue a contract for design preparation, and infrastructure construction and supervision work, and November 2009, all work would be completed. In October 2009, the PIU submitted a bid evaluation report and a draft contract for the Bank "no objection," however, since it was uncertain whether the Project would be extended, the Bank team refrained from providing "no objection."

<sup>15</sup> The Borrower ICR states that a "list of equipment needs was submitted to the World Bank in February 2009," however, the PIU indicated that the list submitted required further verification and inputs by consultants and therefore should not be considered a final list.

in each Village Cluster, the central village municipality was the owner of the sub-project, but sub-project implementation could be contracted to a private management company. Further, it was agreed that to achieve efficiency and economies of scale, two regional management companies would be hired to implement investment plans—one for the SDNP area, and the other for the ONP area. A three-party contract would be signed by the PIU, the VC central municipality, and the management company. The management company would be responsible for sub-project for implementation (procurement of goods, works, and services according to Bank guidelines, fee collection for use of goods and services, etc.), the PIU would advise, support, and supervise the implementing agency, including training in procurement, accounting, and key technical skills. Finally, it was agreed that if any VC municipality was sufficiently well-developed with sufficient capacity, it could serve as the implementing agency.

- (b) *Absence of EA/EMP.* The VCIPs did not provide environmental impact assessments for the proposed investments, but since the investments involved civil works to establish agricultural machinery centers, for example, the Bank team emphasized that each sub-project needed an environmental assessment and an environmental management plan including any necessary mitigation measures.

Completion of these plans was delayed, which left insufficient time for the Approval Committee to review or approve them. In conclusion, the Project was unable to implement any VCIP and thus contribute to the Project development objective. MENR and the PIU maintain that given the commitment of community members, local Government authorities and municipalities, all 15 investment plans could have been implemented in 2010 if the Project been extended.

The PIU reports that in December 2009, the consultant submitted 15 revised VCIPs to the PIU. These VCIPs were never submitted for Bank review; however oral communication with the PIU indicated that key shortcomings of the initial VCIPs had not been addressed, namely the VCIPs lacked clear specifications for implementation arrangements.

### ***Component 3: Rural Enterprise Development***

In September 2008, Component implementation began with the award of the Business Advisory Services (BAS) consultancy contract. Consultants visited the 55 targeted villages in the 15 VCs in both NPs, conducted focus groups with potential Project beneficiaries, and carried out a needs assessment; they developed a comprehensive socio-economic baseline database, which was used to help identify gaps, needs, and opportunities for potential VC sub-projects/grant applications.

As envisaged at appraisal, the consultants set up five mobile Business Advisory Teams (BATs), three in SDNP and two in Nakhchivan; they selected Community facilitators/trainers in all 15 VCs and provided training to enable them to disseminate Project information among villagers and help prepare business plans and grant proposals. A Website was established to provide communities with information on business advisory services.

The BATs and community facilitators worked closely with villagers to identify grant priorities, which included, inter alia: bee-keeping, orchards, breeding small ruminants and cattle, establishing fisheries and tourism.

Communities extended a high level of support for the Component and villagers welcomed the Project-provided opportunities for income generation, new skill development, new or additional employment and improving their overall standard of living. About 202 grant proposals were developed and submitted to the grant administrator responsible for initial screening of grants, and subsequently for grant administration and monitoring.

In September 2009, a grant administrator was selected but since it was uncertain that the Project would be extended, the contract was not signed.

In summary, delayed development of grant proposals and delayed selection of a grant administrator prevented implementation; therefore, the Component failed to contribute to meeting the Project development objective. Moreover, as in Component 2, Project area inhabitants had high levels of enthusiasm, expectations, and support for the Project; betraying their trust and failing to deliver on Project outputs is a seriously unfortunate outcome.

***Component 4: Project Management, Monitoring and Evaluation, and Communications***

The PIU was staffed only after substantial delays; most key personnel were not in place until the third year of Project implementation; the procurement specialist was hired in January 2009. The PIU, although fully staffed in the final Project year, still lacked sufficient technical capacity to implement the Project. Bank supervision missions found that Component managers were insufficiently qualified or skilled to be proactive or implement Project activities. Due to other MENR assignments, the PIU Director was unable to dedicate sufficient time to the Project. Also, heavily centralized decision making substantially delayed project implementation because MENR insisted on reviewing all correspondence and daily implementation activities.

Several activities specified in the Project Implementation Manual as PIU tasks were never implemented, including a communications strategy, a socio-economic study, and a tourism plan.

### **Annex 3. Economic and Financial Analysis**

During Project preparation, an incremental cost analysis (ICA) was carried out. The ICA defined a baseline scenario and a GEF alternative scenario. The analysis posited that under the baseline scenario establishment and management of national parks would be along the lines of the traditional system of protected areas. Parks would focus primarily on strict nature reserves and not include biodiversity conservation on a broader, multiple-use, landscape level. Forest and meadow inventories/assessments would be carried out over several years, limiting park managers' ability to establish and implement effective management plans. Consequently, forest areas would continue to decline as local people harvested trees and branches for fuel wood. Over-grazing would also continue on alpine pastures outside of Park core reserve areas, diminishing grass cover and biodiversity, and increasing erosion, flooding, and downstream sedimentation. Biodiversity would decline due to lost forest cover, overgrazing, uncontrolled hunting, and collection of non-timber forest products, and unchecked, unregulated development. In the face of lacking environmental management rising livestock numbers would degrade environmentally sensitive pastures. The ICA also posited that without environmental management, new enterprises would develop in and around the Park, based on Park amenities and natural resources, and a focus on tourism-based businesses would attract more resorts, restaurants, and recreational activities that would be established without zoning or development regulation to manage impacts on natural resources and biodiversity.

The baseline scenario was seen to generate domestic benefits, but fall short in realizing global impacts; it was seen as insufficient to address existing threats to critical areas of the highest biodiversity and international conservation importance. Moreover, the baseline scenario was inadequate to integrate biodiversity conservation on the broader landscape-level, which is essential for long-term ecosystem management and biodiversity conservation. Under the baseline scenario, total estimated expenditures were US\$8.99m.

The GEF Alternative Scenario would build on the baseline by supporting incremental activities in Project areas to help achieve global environmental benefits. The proposed alternative would strengthen management capacity for biodiversity conservation by expanding protected area management from small, strictly protected reserves, to broad, multi-purpose national parks. The total estimated cost of the GEF alternative scenario was US\$16.88m, of which incremental cost was US\$7.89m; of which US\$5.0m would be GEF-financed. Although the analysis provided no breakdown of other financing sources for baseline- and GEF-alternative scenario costs, it appeared that the PHRD grant would finance the incremental cost balance, and the IDA credit for the baseline scenario.

The GEF Alternative scenario was not realized. At Project closure, little of the US\$0.93 million of the GEF grant and US\$2.76m of the PHRD grant had been disbursed (Table 1). Most of the GEF grant funded Project management costs and some Component 1 costs. The PHRD grant funded preparation of management plans, and village cluster investment and business plans for Project areas, none of which could be implemented before Project closure. The Project did not contribute to the baseline scenario, as indicated by scant funds expensed on Components 2 and 3.



**Table 1. Project costs**

Component	Project Cost (US\$'000)		IDA Financing (US\$'000)		GEF Financing (US\$'000)		PHRD Financing (US\$'000)		GOA Financing (US\$'000)	
	Appraisal Estimate	Actual	Appraisal Estimate	Actual	Appraisal Estimate	Actual	Appraisal Estimate	Actual	Appraisal Estimate	Actual
1. Protected Areas establishment and management	8.69	1.80	3.33	0.00	2.12	0.32	1.92	1.48	1.32	0.00
2. Community-level investment in agriculture and NR management	4.48	0.49	3.15	0.00	0.91	0	0.40	0.49	0.03	0.00
3. Small enterprise development	1.95	0.70	0.79	0.00	0.76	0	0.40	0.70	0.00	0.00
4. Project management, monitoring and evaluation, and communication	1.98	0.73	0.73	0.10	1.22	0.61	0.00	0.00	0.03	0.02
<b>Total Project Costs</b>	<b>17.10</b>	<b>3.72</b>	<b>8.00</b>	<b>0.10</b>	<b>5.00</b>	<b>0.93</b>	<b>2.72</b>	<b>2.67</b>	<b>1.38</b>	<b>0.02</b>

## Annex 4. Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

Names	Title	Unit
<b>Lending</b>		
Konrad von Ritter	Team Leader	ECSSD
Philip Brylski	Team Leader	ECSSD
Agi Kiss	Team Leader	ECSSD
Gulana Hajiyeva	Environmental Affairs Officer	ECSSD
Samir Suleymanov	Operations Officer	ECSSD
Elmas Arisoy	Procurement Specialist	ECSPS
Ida Njeri Muhoho	Financial Management Specialist	ECSPS
Junko Funahashi	Lawyer	LEGEC
Nedret Durutan	Consultant	ECSSD
Charis Wuerffel	Consultant	ECSSD
Amy Evans	Consultant	ECSSD
Olaf Malver	Consultant	ECSSD
Murad Bagirzadeh	Consultant	ECSSD
Gail Lee	Task Assistant	ECSSD
<b>Supervision</b>		
Agnes I. Kiss	Task Team Leader	ECSSD
Mark Woodward	Task Team Leader	ECSSD
Doina Petrescu	Task Team Leader	ECSS1
Andrina A. Ambrose-Gardiner	Sr Operations Officer	OPCCS
Elmas Arisoy	Lead Procurement Specialist	ECSPS
Gail Lee	Program Assistant	ECSSD
Gulana Enar Hajiyeva	Environmental Specialist	ECSS3
Helen Z. Shahriari	Sr. Social Scientist	ECSS4
Ida N. Muhoho	Sr. Financial Management Specialist	ECSC3
Meeta Sehgal	Operations Analyst	ECSS1
Norpulat Daniyarov	Financial Management Specialist	ECSC3
Olaf Malver	Consultant	ECSSD
Paula F. Lytle	Sr. Social Development Specialist	ECSS4
Rohan G. Selvaratnam	Sr. Program Assistant	ECSSD
Rohit R. Mehta	Sr. Finance Officer	CTRFC
S. Nedret Durutan-Okan	Consultant	ECSSD
Shahridan Faiez	Sr. Social Development Specialist	ECSS4
Yingwei Wu	Sr. Procurement Specialist	ECSC2
Hannah M. Koilpillai	Sr. Finance Officer	CTRFC
Valencia Copeland	Program Assistant	ECSSD
<b>ICR</b>		
Tijen Arin	ICR Team Leader / Main Author	ECSS3
Gulana Enar Hajiyeva	Environmental Specialist	ECSS3

**(b) Staff Time and Cost**

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
<b>Lending</b>		
FY00	7.5	37.6
FY01	25.1	61.2
FY02	40.2	125.0
FY03	22.4	43.3
FY04	19.2	76.5
FY05	20.4	113.3
<b>Total:</b>	134.8	456.9
<b>Supervision/ICR</b>		
FY06	12.0	27.8
FY07	19.3	39.5
FY08	16.8	62.0
FY09	25.5	91.3
FY10	26.5	91.7
<b>Total:</b>	100.1	312.3

## **Annex 5. Beneficiary Survey Results**

A beneficiary survey was not carried out.

## **Annex 6. Stakeholder Workshop Report and Results**

A stakeholder workshop was not carried out.

## **Annex 7. Summary of Borrower's ICR and Borrower's Comments on Draft ICR**

This annex contains:

- (i) A summary of the Borrower's ICR, and
- (ii) The Borrower's comments on the draft ICR.

### **Summary of Borrower's ICR submitted electronically by PIU Manager on March 16, 2010**

#### **Introduction**

The Implementation Completion Report provides an:

- Assessment of the Project objective, design and implementation experience.
- Evaluation of the borrower's performance during the implementation of the Project, with special emphasis on lessons learned that may be relevant in the future.
- Evaluation of the performance by the Bank, the co-financiers and other partners during the evolution and implementation of the Project, including the effectiveness of their relationships, with special emphasis on lessons learned.

#### **Assessment of the Project objective, design and implementation experience**

##### **Project Objectives**

The overall Project development objective was to support restoration, protection and improved management of economically and biologically important forests, meadows and pasture land, much of which has become degraded through overuse. The main instrument for achieving this was the establishment of Shahdag NP (SNP), enlargement of the territory of Ordubad NP (ONP) and surrounding sanctuaries. Based on biodiversity, ecological, and economic criteria, the large, mainly contiguous area of state-owned land in each Project area was divided into different types of PAS, involving different management objectives and regimes. Over time, the objective is to involve municipal and privately owned lands, through voluntary agreements with landowners to manage their land under the national park or other PA. The longer-term objective was to promote diversification of local economies, making them less dependent on mass consumption of natural resources.

The Global Objective (GO) of the Project was to protect biodiversity in two globally significant biodiversity areas within the Caucasus and Zangezur mountains, and introduce and pilot an ecosystem-based approach for Protected Area (PA) management in Azerbaijan.

Key indicators for the PDO and GO were:

- Establishment of SNP and enlargement of ONP;
- Development and initial implementation of zoning and management plans for SDNP and ONP, following a participatory process;
- Implementation of pilot community-based tree planting activities (covering 3000 ha by midterm, and 9,000 ha by the end of the Project) to assist local communities to meet their need for fuel wood and other wood products;
- Adoption of more modern productive and sustainable livestock husbandry practices by at least 20 percent of households in 55 participating villages;
- 150 or more environmentally friendly, financially sound, small and medium enterprises identified, initiated and publicized (all or most receiving small grants from the Project as part of their overall financing package);
- Midterm and end-of-project surveys indicate significantly increased awareness, understanding, and support for multi-purpose national parks (and more broadly for

environmentally sustainable development and natural resource management) within the Project areas.

### **Project components**

The Project area consisted of Shahdag and Ordubad areas, including: (i) state-owned lands that expected to be included in the parks; (ii) state-owned pasture land to be included in other types of PAs to be established around and adjacent to the national parks; and (iii) neighboring municipal and private lands that may be incorporated into the parks in the future through agreement with landowners.

The main **instruments** for achieving Project objectives was the establishment of the *SNP* and enlarged ONP and the surrounding PA network, and associated assistance for community economic development. The model of an ecologically coherent complex of different types of PAS would provide a mechanism for coordinated ecological management, while meeting the needs of local communities and other landowners and users.

Over time, it was anticipated that the area included within the national parks would increase, through incorporation of high-priority state-owned land and through landowners agreeing to include their land in the park through various contractual agreements. Local communities and other stakeholders participated in the preparation of the park zoning and management plans and in the preparation and implementation of a comprehensive and coordinated ecological management plan covering the entire assemblage of PAS. The community development aspects of the Project aimed to promote more sustainable livelihoods and economic activities in Project areas. In the short term, the focus was on reducing pressure on natural resources and ecosystems and mitigating potential negative socioeconomic impacts of increased restrictions on forest and pasture use, by helping local communities to develop alternatives and to improve the productivity and sustainability of their traditional economic activities, particularly livestock husbandry.

### **COMPONENT 1. Protected Areas Establishment and Management (US\$8.69 million):**

This Component supported the establishment of SNP and expanded ONP, and adjacent PAS. A three-phased process was envisaged for the creation of the parks:

**Phase 1:** National parks are created on specified areas of state-owned lands, including existing SPNAs, all Forest Fund land and high elevation meadows of high biodiversity significance, most of which are not used for grazing. Total area of SDNP was expected to be 113,000ha; the territory of ONP was 12,131ha. In accordance with Azerbaijan law, these parks can contain core conservation zones and areas for limited economic activity and other services (e.g., tourism, park administration infrastructure);

**Phase 2:** National parks are expanded through addition of some areas of state-owned pasture, identified based on their high biodiversity or ecological significance. Legislation would be amended as needed to make provisions for regulated grazing, resident and other economic uses in accordance with park management plans;

**Phase 3:** National parks and PAS would be further expanded through incorporation of some areas of municipal or privately owned lands, without transfer of land ownership, based on voluntary agreements between park administrations and landowners. The main objectives were to reduce park fragmentation (e.g., incorporate lands that are enclaves within park boundaries), and increase local support for the park through direct participation in tourism development and other benefits.

Issuing of the legal instrument establishing the SNP was a condition of Project effectiveness; the Resolution expanding ONP was expected to be issued prior to or soon after Project effectiveness. Phase 2 was expected to begin by the second Project year, after completion of detailed forest and pasture inventories and local consultations. Phase 3 could in principle proceed in parallel with

Phase 2, but was likely to require considerable prior awareness raising, education, and negotiation. Creation of the other PAS was proceeding in parallel with the creation of the national parks, and was anticipated to be completed by the Project midterm.

The Project was to support measures to modernize and improve park management, restore degraded areas, develop tourism, and increase stakeholder participation in park management. The Project also aimed to improve sustainable management of biological resources in the other PAS to be established in Project areas, through direct investment (as appropriate) and by creating and supporting institutional structures and planning activities involving key stakeholders. Specific activities to be financed under this Component included: delineation and demarcation of park and other PA boundaries; technical assistance and training for institutional capacity building; forest and meadow inventories, preparation of park zoning and management plans and annual operating plans; implementation of management plans, including reforestation in high priority areas, rehabilitation and limited construction of critical infrastructure for park management and tourism, and provision of essential equipment; implementation of an ecological monitoring system; and incremental operating costs.

**COMPONENT 2. Community-level investment in sustainable agriculture and natural resource management (US\$4.48 million):** This Component was to assist residents of 55 villages inside or immediately adjacent to the two national parks and surrounding PAs to shift their traditional agricultural and natural resource use practices towards more modern and efficient approaches that place less pressure on natural resources and ecosystems. The focus was on promoting a shift away from low-value livestock husbandry primarily based on grazing in vulnerable high-elevation pastures, to more intensive and productive methods based on fodder production. Through advice and technical assistance, communities would develop village investment plans, drawing upon a menu of options (seeds, fertilizers, agricultural equipment, small scale irrigation, milk collection and storage facilities, artificial insemination services, fencing material for pasture management, etc.).

**COMPONENT 3. Rural Enterprise Development (US\$1.95 million):** Component 3 aims were to stimulate economic diversification in Project areas by assisting local entrepreneurs to start or expand environmentally sustainable small and medium commercial enterprises.

The Project would fund small mobile business advisory teams to help interested clients identify and assess the viability of commercial ventures and prepare business plans. There were plans to provide matching grants (ca. US\$2,000-US\$10,000) for start-up or expansion of small or medium enterprises, based on independent evaluation of the business plans. Normally, the grant could support up to 60 percent of total project cost, with the grantee responsible for contributing the remaining 40 percent in cash. It was decided that priority should be given to activities linked to national park objectives (including tourism-related enterprises, alternative energy, and energy efficiency, and value-added processing of sustainable harvested natural products such as fruits, nuts, and medicinal plants) and enterprises that support Component 2 objectives (e.g., value-added dairy products). Following technical and financial evaluation by a contracted Grants Administrator and PIU, grants could be approved by an Awarding Committee comprised of representatives of the Ministries of Ecology and Natural Resources; Agriculture; Culture and Tourism; Finance; and Economic Development.

**COMPONENT 4. Project Management, Monitoring and Evaluation, and Communications (US\$1.98 million):** This component would support overall Project management and administration, including the staffing and operating costs of a central Project Implementation Unit (PIU) and three field offices (Project Coordination Units, PCU): two in the SNP area, one in the Ordubad area. The branch offices were needed because of the size, remoteness, difficulty of access, and poor communications infrastructure of Project areas. This Component also included cross-cutting activities such as: Monitoring and Evaluation (M&E); development and implementation of a communications plan (in collaboration with local authorities and NGOs) to



increase awareness and knowledge of the Project and its objectives and activities at all levels; detailed socio-economic studies to improve targeting of project benefits.

### **Implementation phase**

#### **Implementation of effectiveness conditions**

**According to agreements in order to begin implementation of AZREP, the Government of Azerbaijan should fulfill following effectiveness conditions:**

**Condition:** Opening of Project Account for the Project by Borrower.

**Implementation:** With agreement of the Ministry of Finance, a Project Account for the Rural Environment Project was opened in October 2006 and initial deposit in AZN equivalent of US\$50,000 was placed in the account of International Bank of Azerbaijan.

**Condition:** Development of Project Implementation Manual.

**Implementation:** A Project Implementation Manual for Rural Environment Project, acceptable for World Bank has been finalized and approved by the Ministry of Ecology and Natural Resources of the Republic of Azerbaijan.

**Condition:** Issuing of the legal instrument for SDNP establishing

**Implementation:** By the Presidential Decree № 1814 from 8 December 2006, Shahdag National Park was established on the territories of Pırgulu and İsmaily State Nature Reserves (21014 hectares), State Forest Fund lands of Gusar, Guba, Shamakhi, İsmaily, Gebele and Oguz Rayons (81,797 hectares) and high elevation meadows of high biodiversity, which are not used for grazing (13,084 hectares) in total 115,895 hectares.

#### **Implementation of COMPONENT 1**

Shahdag National Park's Charter was approved by Presidential Decree, dated on 19 November 2008. With regard to the implementation of the Presidential Decree about the establishment of Shahdag National Park, staff list and structure of the national park was approved by the Order of the Ministry of Ecology and Natural Resources. MENR applied to the Cabinet of Ministers for the expansion of Shahdag National Park and establishment of Shahdag State Nature Sanctuary. Director of SNP was appointed by MENR in July 2009. For appointment of experienced staff for SNP MENR issued an advertisement in local newspaper and Website, provided examinations and completion of appointment of SNP. The territory of Ordubad National Park was expanded to 42,797.4 hectares by Presidential Decree, dated 25 November 2009. Current name of Ordubad National Park is Zangezür National Park.

**Adoption of the legislative amendments for the national parks.** The Project supported preparation of changes/amendments to legislation aimed at creating regulatory basis for incorporation of agricultural areas, private and municipal lands into protected areas, and specifically, into the territory of Shahdag and Ordubad NPs areas. For this purpose, international and national legal experts were contracted. Appropriate amendments were prepared in the Law on Specially Protected Natural Areas and Objects; Cabinet of Ministers applied to the President Administration of the Republic of Azerbaijan for approval in a letter dated 22 July 2009.

**Provision of relevant data and topographic maps to the ministry of Ecology by the State Committee of Land and Cartography.** Facing a need in various scaled topographical maps (1:25000, 1:50000 and 1:100000), aerial photography and satellite images for the preparation of biodiversity, forestry and highland pasture inventories and zoning of national park areas in the SNP and ONP Project areas, Ministry of Ecology and Natural Resources obtained requested

maps. These maps were used by international and local experts to prepare management plans and zoning for national parks.

**Determination of the scope of work for the consultancy on design of national park infrastructure and submission of revised list of equipment to be purchased for national parks.** Determination of scope of services for design and supervision of park infrastructure for SNP and ONP was conducted and the necessary list of equipment was submitted to the World Bank.

**Preparation of management plans and providing zoning for national parks.** PIU Team Company implementing “Capacity Building, Inventory and Management Planning of NPs” prepared management plans for both NPs by using Landsat satellite images and submitted to PIU in December 2009. Preparation of management plans and providing of zoning of the territories was implemented in a participatory manner. IUCN guidelines were used during development of management plans. It was possible to complete all issues and tasks under Component 1 indicated in PAD and PIM during 2010. These issues are:

- a) *Implementation of management plans*, management plans for both NPs were ready and implementation phase was possible to complete in 2010;
- b) *Reforestation in high priority areas*, these areas were identified by PIU Team Company together with MENR specialists at the end of 2009,
- c) *Rehabilitation and limited construction of critical infrastructure for park management and tourism*,
- d) *PIU sent appropriate information (October 2009) to World Bank that Evaluation Process for Design and Supervision of Infrastructure for National Park was finalized and contract was ready for signature*, but World Bank Task Team Leader suggested waiting; for this reason the contract was not signed. Implementation of these works (design and infrastructure construction) also was possible during 2010.
- e) *Provision of essential equipment*; List of equipment was submitted to the World Bank in 2009 and this equipment could have been in place by April-May 2010.

MENR and PIU were sure of this and sent a letter to World Bank in November 2009 requesting Project extension; unfortunately the Project was not extended and some tasks and issues under Component 1 remained unfulfilled.

## **Implementation of COMPONENT 2**

During Project implementation, site visits to 40 villages in Shahdag region (Guba, Gusar, Ismayilli and Shamakhi) and 15 villages in Ordubad and Shahbuz regions of Nakhchivan AR data were collected on the geographic, economic and social structure of the regions.

This database covered all Project villages, including detailed information on **demographics** (population, age distribution, migration), **economics** (average household income, ownerships, production, productivity, employment, economic sectors), **social characteristics** (education, health, gender) and statistics, infrastructure, climatic conditions and tourism potential.

For investments, ideas were developed and are indicated below:

- ③ Establishing an agricultural machinery service center with relevant machinery and equipment to support agricultural crop, fruit and vegetable production, providing forage reserve for livestock;
- ③ Establishing a milk collecting and a storage center with cooling facility, which is essential for sustainable marketing;
- ③ Establishing a mineral water processing and bottling center;
- ③ Establishing a small-scale fruit and canned food processing center to improve orchard-based agricultural activities;

- ③ Establishing a jam and honey processing center to improve orchard-based agricultural activities;
- ③ Establishing an artificial insemination service center to increase livestock quality and support herd owners by providing modern equipment;
- ③ Improving the quality of pastures to support agricultural crops;
- ③ Establishment of wool collection, storage and initial processing center;
- ③ Organizing sales of quality fodder and development of access to markets;
- ③ Establishing a small-scale bread baking center;
- ③ Establishing an integrated meat processing center;
- ③ Establishing a tourism center.

The PIU took into consideration all these issues during preparation of conception plans and also investment plans. After continuing visits to these villages 15 investment plans were finalized. Community members were active in focus group discussions, understood the aim of the Project very well, and were able to finalize their needs.

During the studies it was identified that the infrastructure of most villages is poor and must be improved. Most roads, especially within villages are in poor condition, creating obstacles for local people to access markets and sell their products. Besides Project villages of Ordubad area, local people in other villages do not have the chance to use gas for heating, and so they use electricity and wood. Sewage systems and garbage collection are unavailable in all cluster villages; telecommunication facilities are unavailable only in elevated mountaneous areas.

It should be mentioned that local residents of Project villages were very active, innovative, and eager to participate in development of their community. Regarding income sources among local people in target villages include livestock activities (cattle and sheep breeding); vegetable production (mainly potatoes); fruit growing; other agricultural activities such as apiculture and poultry; tourism activities; other sources (salaries, pension, subsidizes etc.).

**Finally PIU received Investment Plans of 15 Village Clusters in the beginning of December 2009.**

Each VC Investment Plan consists of seven sections:

- 1) *Information about Village Cluster*: Location, general information, socio-economic characteristics, physical characteristics, infrastructure, climate, natural resources and agricultural characteristics of the village cluster.
- 2) *Investment Decisions*: Detailed description of final investment decisions for village cluster.
- 3) *Investment Details*: Budget, investment implementation and procurement plan; environmental issues and safeguards are identified.
- 4) *Implementing Agency*
- 5) *Monitoring by the Community*: Supplies questions and answers for the following: (1) How will the community monitor the implementation? (2) How will the community measure the intended impact?
- 6) *Descriptions of Operations after Investment Phase*: Topics related to management and forecasts for incomes/expenditures and profits/losses take place.
- 7) *Signatures*: Demonstrates VCC members agreement to propose the investment projects explained in the VCIP.

VCC members and VCPT arrived at consensus on five main investment ideas to be established within the Project: **Agricultural Machinery Service Centers: Artificial Insemination Service Centers: Milk Collection and Storage Centers: Jam and Honey Processing Centers: Fruit and Vegetable Drying and Storage Centers.**

The PIU established a Committee in each Project area for the approval of investment plans. If the Project had been extended, all these investment plans could have been realized during 2010. All community members, local authorities, and municipality representatives showed willingness to participate in these activities.

### **Implementation of COMPONENT 3**

As part of the Rural Environment Project, the Rural Enterprise Development Component was anticipated to stimulate economic diversification in Project areas by encouraging, facilitating, and assisting local entrepreneurs to start and expand environmentally sustainable small and medium commercial enterprises through preparing high quality grant proposals.

As the most important output of PANAP studies, the PIU established a database covering all Project villages, including detailed information on demographics (population, age distribution, migration), economic (average household income, ownerships, production, productivity, employment, economic sectors), social characteristics (education, health, gender) and statistics and infrastructure, climatic conditions, and tourism potential.

The Project outcomes were expected to provide support to local entrepreneurs to start up or expand small businesses to demonstrate possibilities for environmentally friendly small and medium size business development and initiate small and medium size trading activities in the selected villages within the project areas through business advisory services. In this regard, the Project could encourage investments on rural enterprises, cultural activities, ecotourism, and endeavors in value-added processing of more abundant natural resources.

Examples of projects that would be eligible for grant financing are as follows:

- Small-scale processing facilities for food/medicinal goods (e.g., milk, cheese, fruits, honey, berries and nuts, medicinal plants);
- Ecological restoration activity;
- Bee-keeping;
- Organic farming;
- Cultivation of valuable genetic species, including ancestors of wild species;
- Soil protective activity (forest belts planting and turf),
- Renewable energy usage for melioration;
- Implementation of modern grazing techniques;
- Traditional handicraft activities;
- Development of nature tourism and home-stay activities in the national parks area;
- Plantation of perennial crops, especially berries, nuts and orchards;
- Fuel efficient stoves and alternative energy.

The PIU extended information on the Rural Environment Project in general and in particular on the Business Advisory Services Component, including, grant priorities, eligible activities for grant applications, grant minimum and maximum amounts, and financing ratios for grants and entrepreneur resources.

Public awareness materials were developed and distributed during the implementation.

**Website.** A Website was prepared and launched with interactive features to extend information on Business Advisory Services. The Website was maintained and updated during Project implementation. The address of the Website is: <http://www.rur-dev.org>

**Number of the Business Plans developed by rural entrepreneurs was 202.**

Interests of the rural entrepreneurs in fields of economic activities briefly explained below.

**Beekeeping.** In almost every village, people demonstrated great interest in beekeeping, and in some cases, processing honey.

**Orchards.** In Ordubad and Shahbuz regions, where villagers enjoy suitable climatic conditions and own enough land, there is broad interest in growing fruit, particularly apple and cherry orchards.

**Small Ruminant Breeding.** Especially in ONP, villagers are willing to breed high-yield sheep and goats. Short-term animal husbandry experts **were employed to investigate** the most appropriate breed for the region—environmentally friendly and suitable for the climatic conditions of high, mountainous regions.

**Cattle Fattening.** In Shahdag, Quba, Ismayilli, Shamaxi regions, most villagers developed cattle-fattening business plans. Taking into consideration regional geographic and climatic conditions concomitant with other reasons explained in the next section, it seems the most appropriate environment friendly business investment that can be developed is to encourage villagers for high-yield cattle fattening and train them in feeding practices.

**Fisheries.** In ONP, some villagers show interest in investing in fish ponds, which was supported by local authorities.

**Tourism.** Villagers showed little interest in investing in tourism, although there was some interest among villagers in SDNP, especially in Qusar and Ismayilli region, business ideas in tourism seem to be gaining interest, followed by Shamaxi and Quba.

**Fodder Crop Yielding.** Very little interest exists in investing in fodder crop yielding. The only project developed for fodder crop farming is at Shamaxi region. A rural entrepreneur at Demirchi village of the Shamaxi was interested to invest in fodder crop yielding business.

**Small Agricultural Machinery & Equipment.** The interest in investment in small agricultural machinery and equipment for rural entrepreneurs was not extensive, only four rural entrepreneurs prepared business plans to invest in small agricultural machinery and equipment, at Ismayilli, Quba and Qusar regions.

**Artificial Insemination.** Very little interest exists in investing in artificial insemination. The only project developed for artificial insemination is at Ordubad region.

**Small Size Trading.** Very little interest exists in investing in Small Size Trading. Only one rural entrepreneur at Taglabiyani village of Ismayilli district developed a business plan on small trading. The PIU established a Committee in each project area to approve business plans. The Grand Administrator organization was also selected. If the Project had been extended, most business plans could have been realized during next two years (by 2011).

Community members were very interested in increasing their business and entrepreneur activities.

#### **Implementation of COMPONENT 4**

**Project Management.** The Project Implementation Unit was established and mainly staffed before the Project effectiveness and, during the Project life, provided effective technical leadership and efficient project administration. The structure of the PIU remained unchanged, except for the procurement specialist, who left in the first Project year; her tasks were assumed by other PIU specialists. Nevertheless key PIU staff were in place at the beginning of 2009.

The Borrower has fulfilled its obligations with respect to Project monitoring and evaluation. The TORs for the socio-economic study were prepared in the PIU and submitted to the World Bank for review and approval in August 2009. But the PIU did not receive any comments from the Bank and so it was not possible to complete the tasks in time.

**Financial Management.** The Project financial management (FM) is satisfactory. The PIU has developed FM software tailored for the Project needs, with adequate security levels and its outputs were used to prepare quarterly Project financial monitoring reports. The system is flexible. The project team uses a comprehensive set of accounting policies and internal control procedures in accordance with Azerbaijan legislation and the Project FM requirements. The Project FM procedures manual has been subject to periodic updates and regular reviews by the

Bank. The PIU FM activity has been annually audited by independent auditors, acceptable to the Bank.

## **Procurement.**

### **Performance of procurement**

Overall MENR implemented components (Component 1, Component 2, Component 3 and Component 4) 26 contracts were signed, out of which:

- ⌚ for goods: 4 contracts (4 Shopping); and
- ⌚ for services: 22 contracts (3 QCBS, 4 CQS, 1 LCS and 14 ICs).

The above-mentioned contracts are distributed for each Project component as follows:

Contracts for Protected Areas Establishment and Management Component (Component 1):

- ⌚ 1 QCBS for Capacity Building, Inventory and Management Planning of NPs;
- ⌚ 2 CQSs for TA to establish legal and regulatory framework for SDNP and ONP, PIU Team to determine the scope of services for design and supervision of park infrastructure for SDNP and ONP;
- ⌚ 1 IC for Legislative amendments (National Legal Expert)

Contracts for the Community-level investment in sustainable agriculture and natural resource management Component (Component 2):

- ⌚ 2 QCBSs for Preparation of Village Development Plans for Village Clusters;
- ⌚ 1 CQSs for Public awareness programs for SDNP and ONP;

Contracts for the Rural Enterprise Development Component (Component 3):

- ⌚ 1 QCBS for Business Advisory Services;

Contracts for the Project Management, Monitoring and Evaluation, and Communications Component (Component 4):

- ⌚ 4 Shopping for Vehicles for PIU, Vehicles for PCU, Office, computer and audio-visual equipment for PIU and PCU, Furniture for PIU and PCU;
- ⌚ 2 CQSs for Customization of accounting system IC, Project Launch Workshops ;
- ⌚ 1 LCS for Project Audit;
- ⌚ 14 ICs for PIU Teams on financial management, component management, procurement, assistants and for coordinating component activities.

## **Borrower's Comments on the Draft ICR**

The draft ICR was submitted to the Cabinet of Ministers on May 31, 2010. The MENR comments were received in an official letter dated June 12, 2010.

#4/1258-02-04

June 12, 2010

To: Michel Mordasini  
Executive Director for Azerbaijan  
World Bank

Dear Mr. Mordasini,

Please find attached the comments of Ministry of Environment and Natural Resources on draft Implementation Completion and Results Report on Rural Environment Project completed on December 21, 2009 submitted to the Cabinet of Ministers of the Republic of Azerbaijan under the World Bank's cover letter #REF/WB/AZ//10 dated May 31, 2010.

Enclosure: 11 pages

Sincerely,

F. Aliyev  
Deputy Minister

## **Comments of the Ministry of Environment and Natural Resources on the World Bank's draft Implementation Completion and Results Report on Rural Environment Project**

### **1.1 Context at Appraisal**

Page 13, paragraph 2.

Although Azerbaijan's overall economy was improving due to oil sector development, most mountain inhabitants still fell under the poverty line of US\$24 per month.

Comment:

This is absolutely wrong. Azerbaijan's economy does not exclusively depend on oil sector. Placing such an absurd information, as \$24 worth income of mountain inhabitants, on the World Bank's website by its inclusion in the report is unacceptable. Thus, only in 2005 (at the time of Project Negotiations), based on Azerbaijan's macroeconomic indicators Per Capita Income equaled 928AZN.

### **2.1 Project Preparation, Design, and Quality at Entry**

#### ***Project background analysis***

During Project preparation, the Bank team identified private dwellings in the Pirgulu Strict Nature Reserve in areas anticipated to become part of the SDNP core strict-protection zone. Although Government counterparts assured the team that these areas would become enclaves, this issue became controversial when the SCLU identified these dwellings as they were preparing SDNP maps to meet Project effectiveness conditions. Ultimately, the agencies reached agreement that the dwellings constitute enclaves, but the process delayed Project effectiveness.

Comment:

This may only include agricultural enclave territories, for which the title was mistakenly transferred to citizens during the land reform, but existence of any dwellings is not true.

#### ***Soundness of Project Desing.***

During Project preparation, the MENR appeared to be in full agreement with Project concept and objectives, and formally approved the Project Appraisal Document (PAD), but in hindsight, Ministry commitment to the Project appears questionable. Furthermore MENR leadership and capacity to implement participatory multi-zone ecosystem conservation planning was extremely weak. Implementation suffered from inadequate MENR capacity and championship for the Project.

Comment:

There are no grounds to question the Ministry's commitment to Rural Environment Project and this comes from the report authors' willingness to misrepresent facts. Thus, during the Negotiations on project approval between the World Bank and the Government of Azerbaijan, Ministry was actively engaged in land allocation process to Shahdagh National Park. We insist that the Bank's position on this matter is totally not understandable.

We certainly do not agree with the statement by the report's author that "MENR leadership and capacity to implement participatory multi-zone ecosystem conservation planning was extremely weak" and would like to advise, that from the very beginning Ministry paid special attention to multi-zone ecosystem approach and it was evidenced by the establishment of two national parks and increasing their number to 8 in short time, as well as increasing total strictly protected natural



areas from 4,5% to 10,1% of total area of the country. There are ongoing successful efforts in this area, including:

- Zoning of national parks
- Ongoing efforts on ecotourism promotion in national parks, projects to support communities in surrounding areas.

Page 17, paragraph 4

In hindsight, significant delays in preparing procurement documents managed to derail the implementation schedule to a degree that made the investments in all three Components impossible.

Comment:

1,5 year delay arising from Project Effectiveness Conditions insisted on by the Bank during the Negotiations resulted in delayed Project implementation. The World Bank itself is aware that, late finalization of complicated negotiations of its team with the separate ministries resulted in delayed completion of TORs and procurements in accordance with the Bank's guidelines and procedures. Refusal of the Bank to grant project extension without any serious reason, in circumstances when full conditions and foundation was provided to make component investments, lead to suspension of operations and non-occurrence of investments.

***Identification of risks and mitigation measures.***

Azerbaijan in general and MENR in particular had few professionals trained in modern PA management.

Comment:

In certain parts of the Report Ministry's weak capacity is mentioned, and in other place it mentioned that it has professionals on modern PA management and bringing fully conflicting statements comes from willingness to hold the Ministry liable in unfair way. We hope that the representatives of the World Bank understand that this is unacceptable.

Page 19, paragraph3

Even minor conflicts could not be resolved between the MENR and other government agencies whose input was needed for the Project; for example, the conflict arising from the SCLU request that its staff preparing national park maps be paid from Project proceeds contributed to delays in the effectiveness condition.

Page 19, paragraph 5 (***2.2 Implementation***)

The disagreement on SCLU compensation for generating national park maps was not resolved until winter 2005. By then, severe weather prevented staff from carrying out fieldwork; later, there were lengthy approval procedures for the maps. A disbursement condition under Component 1 was Government approval of an SDPN Charter acceptable to the Bank, for goods and works; this approval took another year until December 2006 because the Ministry of Agriculture strongly opposed including private and municipal land in the national park.

Comment:

MENR, together with the World Bank defended the idea of adding new areas to the national parks in discussions with the State Committee on Land Use and Cartography Committee (SCLU)

and the Ministry of Agriculture (MOA), the World Bank blames the Ministry, as the issue had not been achieved.

If the authors of the report approach fairly and recall their own participation, the World Bank and MENR representatives had numerous discussions with SCLU and MOA and these discussions touched upon important issues, not insignificant ones. Of course, we accept that, MOA and even SCLU, which is responsible for manufacturing process does not encourage inclusion of land used for manufacturing purposes under protected areas. This matter is subject to discussions around the globe, and even in developed Western Countries. The logic of not limiting establishment of National Parks with national resources, but doing it with the support of large and likely experienced institution as the World Bank is to use this expertise to complete such inevitable discussions to the benefit of sustainable growth and environment. If this was not possible, representing this as minor conflicts of the Ministry with others and such blaming MENR is not even compromising the reality, but is an attempt of misrepresentation. Coming to the issue of salaries to SCLU, this matter is not related to MENR, thus not being subject to any conflicts with MENR, it was requested by SCLU from the World Bank and whether the Bank resolved the matter quickly, or considering it unjustified decided not accept this request, thus causing delays, or decided to pay salaries, this is the Bank's business. MENR did not and would not interfere in this process. MENR is even not aware on cases when Bank reaches the compromise and when not.

Page 20, paragraph 1

Understaffing resulted primarily from PIU consultant compensation levels being capped at 20-50 percent lower than in other PIUs; but also some consultant selections and contract awards were held up and reversed, and the PIU Director was diverted from Project activities to other task assignments. The SDNP was not fully staffed until very late in the Project, and during implementation, MENR often balked at supporting local communities.

Comment:

This is also an obvious example of non-objective, and almost prejudged approach of the report's authors, as PIU salaries are established and paid directly by the Bank. MENR neither had funding, nor a decisive vote in this matter. Bank, being aware of salaries in PIUs in Azerbaijan, set low salaries in Project's budget documentation submitted to the Government. "Some consultant selections and contract awards were held up and reversed" is absolutely wrong and insinuating and is not justified with any fact. Duties of PIU director, other than project implementation included mutual consultations with the Ministry's staff. Statement on balking at supporting local communities is absolutely absurd. Open exchange of opinions by the Ministry in technical discussions with the Bank to increase the Project's soundness was presented as the Ministry's failure. Views expressed by the Ministry to the Bank that investments in dairy and livestock activities under community support within Components 2 and 3 will lead to large increase of livestock activities in project areas, intensified use of pastures and increased adverse impact on environment, has been presented by the Bank as general barriers for Project implementation. The interesting fact, is that, the World Bank, in contradiction to the above statement, notes the following on page 33 of the report (Annex 2, Outputs by Components): "The PIU and MENR disagreed with this assessment and maintained that outstanding activities could have been completed in 2010, if the Bank had granted an extension"

MENR still believes, that taking into account the support provided by the communities, project could be implemented successfully. The World Bank is well aware that the Ministry closely worked with the communities and at the same time saw their troubles, arising from their lack of experience. At the same time, projects supporting local communities shall draw on green

thinking. Despite this, the Ministry, which expressed this opinion, never balked at any project. This view was rudely misrepresented by the World Bank's expert.

## **2.4 Safeguard and Fiduciary Compliance**

### **Procurement**

Page 23, paragraph 2

The selection of individual PIU consultants, including a Procurement Specialist, experienced significant delays, due to (i) caps on PIU consultant compensation levels and (ii) slow TORs clearance by MENR. Several candidates were rejected on the grounds that they were unsatisfactory because they had, for example, worked in several PIUs, or appeared to be uncommitted to environmental protection, criteria that were not included in the TORs.

After repeated failures to identify suitable PIU consultants, MENR proposed that staff take a leave of absence to work in the PIU and be compensated from Project proceeds, which would help build MENR capacity. The Bank rejected this proposal...

Comment:

As already mentioned above, level and financing source of salaries to PIU consultants fully depend on the Bank's decision and approach. In addition, MENR never rejected the decisions of evaluation commission established by the PIU on staff selection based on announcements for consultant selection.

The Ministry, simply, expressed its concerns, wishes and recommendations during the discussions on this matter with the World Bank. MENR still believes, that in environmental projects preference shall be given to people related to the environment and to express this view the Ministry did not specifically approach the World Bank or the PIU. Instead, the Ministry expressed its views in response to the requests of the World Bank team in its meetings with the Ministry's management.

There were no any active interventions or resistance during process implementation (unfortunately, in this situation views expressed by the Ministry in discussions are represented in the World Bank's report as a ground to blame the Ministry).

It's evident, that despite the World Bank's representatives in some cases describe the Ministry's role as weak (looks like, in this case to criticize they need to show its role as weak), or in some cases, overestimate and represent it as overly proactive (again, to have grounds to criticize), in reality all matters were addressed in accordance with the World Bank's decisions. The Ministry during its meeting with the Bank's team informed the Bank on importance of hiring people with relevant qualifications and experience to staff management of Project components on national parks and protected areas and suggested to hire some of the Ministry's staff to the PIU on temporary basis to fill the gap in staffing. This recommendation, given as a way to address the situation was not accepted by the World Bank and the Ministry accepted it without turning this into tragedy.

### **3.1 Relevance of Objectives, Design and Implementation**

Page 24, paragraph 1

MENR prides itself on having increased the area under protection to 18 percent of Azerbaijan's total land area through creating eight national parks, four nature reserves, and four nature sanctuaries, and expanding six sanctuaries and two national parks since 2003. However, it is unclear whether MENR fully embraces the concept of ecosystem-based, multi-use nature conservation; instead, the emphasis appears to be on strict protection.

Comment:

We totally reject this irrelevant sarcasm of the World Bank's representative and we are really proud. First of all, despite that there is still a significant room for establishment of protection arrangements in specially protected areas, simply securing their legal status, in the country with fast privatization process, will at least definitely ensure bioconservation of certain areas for future generations as a result of environmental protection activities. Second, MENR, which is criticized in this report, already introduced the multi-zonal approach in national parks established at the same time with the support of individual international organizations and NGOs (the irony is that it was easier to accomplish without the World Bank's support). Currently such activities are being completed for Goy-Gol NP, Shirvan NP and Hirkan NP and with respect to Zagatala reserve, which is criticized in the report, relevant activities are undertaken together with Germany's Economic Cooperation and Development Ministry and KfW Development Bank to introduce multi-zonal approach.

## **5.2 Borrower Performance**

### **(a) Government Performance**

#### **Page 27, paragraph 4**

Inter-agency conflicts, such as the State Committee on Land Use and Cartography, were protracted rather than resolved cooperatively, which might have indicated lack of commitment.

Comment:

The meaning of this statement certainly does not reflect the reality. As mentioned earlier, this issue totally depended on Bank and while the Bank had to act in view of cooperation and substance of the problem, it resulted in protracted negotiations and consecutive delays. In fact, the Ministry had to engage in lengthy communication with SCLU to resolve the issues requested by the World Bank. Besides troubled communication with SCLU and MOA to meet some absurd requirements of the World Bank, in general Ministry has normal relationship with this organizations.

#### **Paragraph 5 (b) Implementing Agency or Agencies Performance**

MENR performance appears to be a main factor leading to poor Project outcomes. MENR intervention in procurement processes led to delays; offering lower-than-market rates for PIU consultants prevented recruitment of skilled professionals for key positions. The PIU Manager's attention was often diverted to non-Project-related assignments, exacerbating the effects of PIU understaffing, and further delaying implementation. Conflicts with other government agencies led to significant delays. Low technical capacity among MENR staff, limited contribution to Project implementation, and prolonged reviews of technical materials also delayed Project implementation. In addition, already-limited staff capacity was severely overextended because MENR was simultaneously implementing multiple Projects.

Comment:

Unfortunately, there were no single person in the World Bank's team working on the project from the very beginning through completion. As result, persons joining the Project on various stages, not empathizing and causing troubles were worried only about one thing: how to escape liability. If that is not the case, then report authors would not forget to mention, that despite all efforts made on our part together with the World Bank's team, conditions for implementation of Components 2 and 3 were established very late (late 2008), after adoption of National Park status, boundaries and by-laws in accordance with Component 1 requirements, resulting from "minor conflicts of the Ministry with other other government agencies" (which is absolutely not true) and, in reality, from complicated discussions and negotiations with participation and direct

interference of the World Bank's numerous experts. Thus actual conditions enabling implementation of Components 2 and 3 were established in 2009 only.

We once more repeat, that in the same period, i.e. in 2005-09 MENR achieved establishment of another three National Parks, without the World Bank's involvement. Thus, let us, putting it mildly, strongly reject your prejudged statement, that "MENR performance appears to be a main factor leading to poor Project outcomes" and call you to reconsider this issue once more and to be more unpretentious and self-critical.

MENR's interference in procurement process was impossible and this should be clear firstly to the World Bank, as tender procedures implemented by PIU were in compliance with the World Bank's and Azerbaijan's procurement legislation and procedures.

If the matter in question is the procurement of map, then it became known to the Ministry's representative, that one of the bidders in map procurement made a dishonest attempt to participate in the Ministry's other tender. Discovering such information is the duty of the members of Evaluation Commission and they did it. It shall be noted, that members of Evaluation Commission included representatives of the Ministry of Finance and Ministry of Economic Development and they had a powers to influence this process.

The interesting fact is that this company, already having behaved as a winner, tried to influence the PIU and Evaluation Commission, even to threaten and blackmail and attempting to break the tender procedure and unfortunately, judging by the World Bank's negative attitude, this blackmail effort was successful. As a result, bringing a statement without examining this process, which was left uncompleted, generates many questions.

Coming to the weak capacity of the Ministry we would like to draw attention to the following contradicting statement of the report's authors: "Azerbaijan in general and MENR in particular had few professionals trained in modern PA management", page 19, paragraph 2.

The Ministry reviewed the TORs mainly for Component 1 from environmental and biodiversity points of view and expressed its views. The World Bank sometimes mentions the Ministry's weak commitment to the Project and sometimes mentions its interventions and it is completely non-understandable. In addition, in section on implementing agency's performance (in this case, MENR is implementing agency) offering salaries lower than market level to PIU consultants is presented as MENR's fault and this, at least, unfair, incompetent and prejudged. It's commonly known fact, that Project budget allocation, as well as level of the salaries to PIU staff is established by the World Bank. Coming to the statement, that "PIU Manager's attention was often diverted to non-Project-related assignments", which is repeated in various sections of the report, please be advised, that Ministry did not establish any activities on international projects jointly implemented with EU, German Development Bank, except general consultations with PIU and, at the same time, the Bank could you its power to evaluate the activities of PIU causing delays in implementation and take relevant measures.

In general, one of main reasons of the Bank's dissatisfaction is the Ministry's attitude in respect of PIU. In fact, this matter has been discussed with the World Bank. The Ministry's attitude was to not interfere, but to be informed on substance of matters, for which it's considered an owner. Not being able to impact, participation of the Ministry as responsible in these matters does not fit any logic.

Back in 2001, when the Ministry was newly established, former PIU manager came to the Ministry with the set of documents, requesting the signature. When asked questions about these documents he answered: "This is the World Bank's business and does not concern you, you just simply need to put a signature". Naturally, the Ministry rejected to approve subject documentation. On the next day, in addition to pressures on the Ministry from other sources, as well as from the World Bank, the PIU staff expressed their attitude using very extraordinary method. PIU staff, including its procurement manager and others opened "Jihad" named websites

directed against the Ministry. This occurred 2-3 months after the Ministry's establishment. The Ministry even did not have a chance to commit a "sin". It's interesting, who advised the PIU to announce a Jihad against the Ministry? Which interests of these persons were affected by the Ministry? Do the report's authors consider such attitude exemplary?

## **6. Lessons Learned**

**Adding the following sentence to this section of the World Bank's report would reflect the reality: "Never be frank in discussions with the World Bank, don't discuss your concerns, as the Bank in its reports will turn your concerns into blames against you"**

### **Annex 2. Outputs by Component**

#### ***Component 1: Protected Area Establishment and Management***

Furthermore, the final Bank supervision mission assessed that the "pastures" being added to the SDNP had no particular significance for biodiversity protection or ecological functions (erosion control, ecological restoration, migration corridors, etc.) as indicated at Project appraisal. Instead, they were the highest-elevation grazing areas on marginal lands, often just exposed rock with limited vegetation, that were not being leased for grazing domestic animals by the Ministry of Agriculture. The Bank team questioned the value of these lands for biodiversity conservation when compared to the overall distribution of available pasture lands in the SDNP Project area. However, MENR disagreed with this assessment.

Comment:

The World Bank, having blamed the Ministry in minor conflicts with other Ministries, here admits that discussions were carried on significant matters. At the same time, high elevation areas included in SDNP and mentioned by the Bank as "inadequate" are the sole place in Greater Caucasus, which both has rich biodiversity, and at the same time had lower exposure to intensive grazing and other man-made impact. At the same time, inclusion of these areas under the national park area partially decreased the park's fragmentation and resulted in establishment of ecosystem. It should be noted, that conservation of these areas allowed herd expansion for mountain goats, and other animals typical for these areas. A number of experts notes, that the area was taken under protection in very short term and this will play critical role in saving a number of species. There are ongoing efforts to use these areas for grazing. From this point of view, the fact, that the World Bank relied on the opinion of the expert who had provided wrong opinion, without really studying situation on the ground and reflecting such opinion in the report is disappointing.

Besides, in the course of Project negotiations held back in 2005 between the World Bank and the first Deputy Prime Minister A.Abbasov, only MENR definitely supported the idea of expansion of the National Park area through incorporation of other summer pastures, with rich biodiversity located in the project area and the World Bank, having agreed to 3 stage expansion of the National Park area to reach a compromise, supported the idea of expansion of National Park area through incorporation of forests, protected areas and highlands.

#### Paragraph 4

However, technical background data were never made available to the international consultants, and could not be covered by rapid ecological assessments; other data never became available, for example, on the broad picture of wildlife winter and summer ranges and the interaction between wild and domesticated animals.

Comment:

If the Ministry obtained such a complicated data and was capable of providing it to the World Bank, then what was the project's purpose? In such case, what was the reason for the World Bank's involvement? The Ministry would manage to perform all works itself.

It should be mentioned, that during this period, the Ministry established and equipped the Wild Nature Epidemiological Supervision Laboratory, without any external support. Now we are capable of obtaining such data and we use this data in furthering the process of Shahdagh National Park establishment and development (despite all arising difficulties).

R.Sattarzade

Head of Environmental and Nature Protection Policy Department

R.Ajalov

Deputy Head of Finance and Economy

## **Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders**

The draft ICR was submitted to the Embassy of Japan in Azerbaijan for comments. The Embassy informed the Bank that it had no comments.



## **Annex 9. List of Supporting Documents**

Ministry of Environment and Natural Resources, *Environmental Assessment and Environmental Management Plan*, February 2005

The World Bank, *Project Appraisal Document*, May 12, 2005

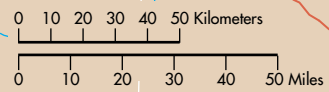
Ministry of Environment and Natural Resources of the Republic of Azerbaijan, *Borrower's Project Completion Report*, March 16, 2010



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# AZERBAIJAN

- RAYON CAPITALS
- ⊙ CAPITAL OF AUTONOMOUS REPUBLIC
- ⊛ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- RAYON BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



SEPTEMBER 2004

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