



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 24-Dec-2019 | Report No: PIDA27735



BASIC INFORMATION

A. Basic Project Data

Country Azerbaijan	Project ID P171250	Project Name Azerbaijan Employment Support Project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 02-Dec-2019	Estimated Board Date 19-Mar-2020	Practice Area (Lead) Social Protection & Jobs
Financing Instrument Investment Project Financing	Borrower(s) Republic of Azerbaijan	Implementing Agency Ministry of Labor and Social Protection of the Population (MLSPP)	

Proposed Development Objective(s)

The Project Development Objective is to improve vulnerable people's access to employment.

Components

1. Enhancing the scope and effectiveness of the Self-Employment Program (SEP)
2. Strengthening employment services and programs
3. Project Management, Monitoring and Evaluation

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00
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Environmental and Social Risk Classification



Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Strong economic growth over the last 15 years has propelled Azerbaijan into the upper middle-income status. The country's gross national income (GNI, Atlas method) per capita rose from \$610 in 2000 to \$4,080 in 2017.¹ The rapid transformation was made possible by the exploitation of hydrocarbon resources (oil production) and high levels of public expenditure. Mining, which mainly represents oil and gas, contributed about 50 percent to total GDP from 2005 to 2012 (State Statistical Committee). Among non-oil sectors, the biggest increase took place in the construction sector. However, in the last few years economic growth slowed substantially. A collapse in global oil prices in 2014-16 led to the first recession in country's recent history when the real GDP plummeted by 3.1 percent.

2. During the 2017-18 period, the Azerbaijan economy began to recover, albeit at a sluggish pace, supported by favorable terms of trade and stable oil production. Economic growth was only 0.1 percent in 2017 and accelerated to 1.4 percent in 2018, with the non-oil sector leading the modest recovery. Agricultural growth averaged 4.5 percent, fueled by higher exports to the Russian Federation, and output in most service sectors recovered to the pre-recession levels. Construction remains an exception to this pattern, still posting negative growth rates. Oil sector output growth was limited by Azerbaijan's participation in the OPEC/non-OPEC agreement. On the expenditure side, caps on oil sector output resulted in modest exports contribution to growth, while domestic demand was held back by subdued wage and credit growth.

3. Poverty declined sharply during the boom years, though the negative shocks during the recession contributed to its increase. Azerbaijan experienced significant and steady poverty reduction, with poverty rate² declining between 2005 and 2015 from 29 percent to 4.6 percent, and the middle class³ growing from 18.9 percent to 55.6 percent over the same time period. There are significant spatial disparities in welfare across regions, as well as between rural and urban areas within each region, with poverty largely focused in rural areas.

4. Employment outcomes are lower for women, youth, internally displaced persons (IDPs) and lower educated people. While Azerbaijan's overall labor force participation rate (71 percent in 2016, approximately 5 million people) is in line with that of other Europe and Central Asian countries, low female labor force

¹ <http://www.doingbusiness.org/data/exploreeconomies/azerbaijan>.

² Using the international Upper Middle-Income poverty line of US\$ 5.5 per day per capita in 2011 prices.

³ Where middle class is defined as earning US\$ 11 or more per day per capita in 2011 prices



participation is a concern (labor force participation rate is 54 percent for women as opposed to 75 percent for men).⁴ Labor force participation is higher in rural areas, mostly because the rural workforce is employed in subsistence agriculture. Highly educated individuals are significantly more likely to participate in the labor force. IDPs have lower employment rates and higher inactivity rates than non-IDPs. They have few income-generating options and are highly dependent on state transfers and subsidies as their main source of income. Youth face significant challenges entering the labor market, and many young women are not in employment, education, or training (NEET).

Sectoral and Institutional Context

5. Azerbaijan has recently increased investment in social policies, albeit social protection spending is still low compared to the regional average. The share of the total Government budget⁵ allocated to social protection including social insurance (SI), social assistance (SA), and labor market programs (LMP) was 10.3 percent (2.3 billion AZN) in 2019, 11 percent higher than the previous year, representing about 5 percent of GDP. This level of spending is below the average among ECA countries (8.6 percent of GDP) and the European Union (19 percent of GDP). Social insurance (pensions) accounts for most about 85 percent of SP spending. Spending on SA is among the smallest in the region, around 0.8 percent of GDP. The Targeted State Social Assistance (TSSA), the main poverty targeted cash transfer program, is the largest social assistance program in the country, representing around 38 percent of the total social assistance expenditure in 2017, equivalent to 0.3 percent of GDP. Spending on labor market programs is still low – about 0.04 percent of GDP in 2017 – though the budget allocated to the Unemployment Fund has increased significantly in the past two years driven by an expansion of the Self-Employment Program (SEP) and unemployment benefits. Labor market programs include unemployment assistance, vocational training, self-employment programs and employment services delivered through the State Employment Service (SES).

6. The SES offers a limited array of active labor market programs (ALMPs). The SES is an agency subordinated to the Ministry of Labor and Social Protection of the Population (MLSP) responsible for the implementation of public employment services and programs. It has about 86 local offices in the country and approximately 900 staff. Programs available to registered unemployed include job search, job counseling, vocational training, vacancy fairs, public works, the SEP and unemployment assistance benefits (accounting for one third of the budget)⁶. Jobseekers' registration and job intermediation functions will be increasingly implemented in coordination with DOST⁷ centers. As of December 2019, SES had about 78,000 individuals registered as unemployed (about 30 percent of the total unemployed in the country).

⁴ World Bank (2019): Improving Employment Outcomes in Azerbaijan.

⁵ In 2019 the total government budget 25 billion AZN, 11.2 percent higher than the previous year in part to address social issues.

⁶ By law, both public and private employers are required to submit available vacancies to SES. However, only a fraction of vacancies available in the economy are intermediated through SES channels as most employers do not register their vacancies with SES. Vacancies registered at SES tend to be for unskilled or semiskilled workers, and consequently mostly for low wages jobs.

⁷ DOST, the Azerbaijani acronym for Centers for Sustainable and Operational Social Security, is a one-stop shop centers to administer the front office functions related to the administration of social services (pensions, disability benefits, social assistance benefits. The first DOST center has been launched in Baku in May 2019. Three more centers are expected to be launched in 2020 throughout the country. DOST Centers are under the jurisdiction of MLSP



7. The Government of Azerbaijan has committed to enhancing and expanding the SEP originally piloted in 2014. The SEP provides business training, support to prepare a business plan and in-kind assets to vulnerable unemployed as a way to promote their self-sufficiency and with the original objective to reduce dependency on public support. The SEP was piloted in the Goychay region in 2014 with support from the International Labour Organization (ILO). The pilot was very small in scale with 21 beneficiaries (17 males and four females) and four trainers. The participants were selected jointly by ILO and SES and the decision was taken based on a series of interviews.

8. Building on the experience of the pilot, in 2016 a presidential decree mandated the government to scale up the program.⁸ Program funding amounted to approximately AZN6 million which supported nationwide implementation in 2017. It covered 84 regions and cities and provided training and assets to 1,281 participants. The program was divided into six stages: (i) preparation; (ii) training of local trainers; (iii) selection of beneficiaries; (iv) training of beneficiaries; (v) approval of business plans; and (vi) purchase and delivery of in-kind assets. Based on the presidential decree as well as the National Employment Strategy 2017-2030, MLSPP began scaling up the SEP in 2018. The government invested AZN35.8 million from the Unemployment Insurance Fund⁹ in 2018 to provide in-kind assets for self-employment activities (maximum AZN7,000 per ?) to close to 8,000 participants in both 2018 and 2019 respectively.

9. The Vocational Training Centers (VTCs) operated by MLSPP require upgrading of curricula and training materials, as well as stronger links with employers if they are to provide labor-market relevant skills training. MLSPP operates two Vocational Training Centers (VTCs) in Baku and Goychay (with a third one in Ganja to be opened in 2020), providing short-term vocational training (up to a maximum of three months) for unemployed individuals registered with SES. The primary purpose of these training centers is to train active job seekers (registered with SES with an “unemployed” status) to improve their employability as well as retrain existing workers, especially those at risk of losing their job, to develop their capacities and assist them in the job-to-job transitions. The supply of certified vocational training courses by VTCs is very limited and the scale is small with about 3,000 people trained every year.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

10. The Project Development Objective is to improve vulnerable people’s access to employment. Vulnerable people are defined in accordance with the Law on Employment as beneficiaries of the TSSA program, IDPs, refugees, women, youth, individuals with disabilities, long-term unemployed, individuals with less than

⁸ By The Decree of the President of the Republic of Azerbaijan dated April 7, 2016 "On Additional Measures to Ensure Employment of the Population".

⁹ The Unemployment Insurance Fund was created in 2018 as part of the country’s reform of the employment law. Both employers and employees contribute 0.5 percent of the employee’s salary to the fund. The fund’s objective is to finance unemployment benefits as well as ALMPs. Forty percent of the fund’s overall budget are dedicated to the self-employment program.



two years until retirement, and former convicts.¹⁰ The project will target in particular four of these groups: the TSSA beneficiaries, IDPs, women, and youth, who are either inactive or unemployed registered with SES. Employment refers to both self-employment and wage employment opportunities.

Key Results

11. Against its development objective, the project aims to address unemployment and inactivity among vulnerable individuals by expanding the SEP and providing a strengthened and more diverse set of services to SEP beneficiaries, as well as by improving the capacity of the state employment services to help work able individuals to access job opportunities. To this end, the project aims to achieve the following key outcomes:

- Increased share of SEP businesses in operation 24 months after the asset transfer has taken place (by vulnerable group)
- Increased employment rate among registered jobseekers (by vulnerable group)



D. Project Description

12. The project will be implemented through the network of local SES centers under the leadership of the MLSPP. In agreement with MLSPP, the project will start operating in 27 selected rayons¹¹ in 2020 and then expand to other rayons (as approved by the World Bank) to support only SEP beneficiaries requesting non-livestock related assets. SEP beneficiaries requesting livestock¹² will be supported by the government-sponsored SEP program. The initial 27 rayons to be supported by the project in 2020 have been selected based on agreed objective criteria to represent different economic-geographic conditions in Azerbaijan. The government ranked rayons (and subrayons in Baku) based on their combined percentage of (i) the country's population, (ii) the share of registered unemployed residing in that area, and (iii) the share of all individuals who have applied to the self-employment program.¹³ Starting from 2021, the project will be gradually scaled up to other rayons (as approved by the World Bank)

Component 1: Enhancing the scope and effectiveness of the Self-Employment Program (SEP)

13. The objective of this component is to support an additional client cohort with in-kind transfers of assets as well as diversifying the SEP and complementing it with additional services. The project-financed beneficiaries come in addition to the government sponsored client cohort. This will be achieved by (i) improving targeting and outreach; (ii) expanding the scope of the program towards income-generating activities not exclusively related to livestock; (iii) introducing trainings and support services to increase the likelihood of business survival; and (iv) supporting pooling arrangements. To enhance the program's impact among women, this Component—in particular, Subcomponents 1.1. and 1.2—will take into consideration preferences for entrepreneurial activities (e.g. tailoring, food processing) identified by the Azerbaijan Rural Investment Project 2 (“AZRIP 2”).

Subcomponent 1.1: Expanding the program scale and scope of support

14. This subcomponent will support the scale-up of the SEP to other regions (as approved by the Bank), diversification of SEP businesses, and enhancement of the business training currently implemented under the program. This sub-component will (i) enhance the 40-hour class-based ILO “Start and Improve Your Business” (SIYB) training module, currently implemented as part of SEP strengthening the business practices module, by adding an orientation day, a financial literacy module, and psycho-motivational elements to develop key behaviors associated with a proactive entrepreneurial mindset, showcasing success stories among previous SEP beneficiaries ; (ii) follow-up visits to ensure the knowledge acquired at the business training is applied “on-the-job”; (iii) provide in-kind assets (with the exclusion of livestock assets which will be provided by the government sponsored SEP) to approximately 22,000 SEP beneficiaries throughout the project to support the start-up of income generating activities based on approved business plans; (iv) subsidize the cost of opening a bank account for those who decide to open one; (v) outsource to private providers the delivery of technical trainings for selected non-farming activities/occupations in demand by SEP beneficiaries with limited supply, and (iv) upgrade curricula of selected courses and equipment in the two SES-operated VTCs.

Subcomponent 1.2: Testing the introduction of complementary business support services for selected SEP

15. This subcomponent will support additional services for those SEP businesses with higher potentials to expand. “Necessity entrepreneurs”, such as SEP beneficiaries, are often outside formal access to finance markets almost by definition. The objective of this subcomponent is to provide additional services and access to further finance to promote business development for a small subset of SEP beneficiaries who have higher prospects to grow their business beyond subsistence. Promising SEP businesses will be identified based on their business performance and plan to grow



about 12 months after receiving the in-kind asset. Specifically, the subcomponent will finance the following services for a few selected SEP businesses: (i) the provision of additional funding as a matching grant of maximum amount AZN 3,500 for those SEP beneficiaries who intend to expand their line of business based on adjudication of their expansion business plans; (ii) a larger award to be awarded based on a business plan competition where proposals to scale up the business will be prepared by SEP beneficiaries and evaluated; (iii) the provision of individual mentoring visits and advisory services during the first four months of business operation; (iv) the provision of informational sessions on the existing financial instruments with a focus on existing concessional loans and business development services that SEP beneficiaries can use to attract additional financing to scale up their business.

Subcomponent 1.3: Improving the governance and coordination mechanism of SEP

16. The project will support improved governance and coordination arrangements of SEP implementation. To this end, the project will finance (i) the introduction of innovative ICT solutions to streamline access to SEP through a dedicated beneficiary support portal and mobile app; (ii) training for SES staff for improved engagement modalities with clients as well as improved selection of beneficiaries with a special focus on working with vulnerable groups and technical and social support to clients (iii) strengthening of outreach and the selection process for SEP (targeting) in local SES centers, particularly for women to increase their participation in SEP; (iv) improvement of the coordination between the TSSA and SEP and (v) upgrading of the SES management information system (MIS) to improve the monitoring and performance management of the programs as well as the analysis of SEP beneficiary data. An assessment of the country personal data protection policies and the MLSPP's data systems will be conducted during implementation in order to identify gaps. The objective will be to put in place a framework for protecting personal data used in the program and to strengthen the IT governance and capacity, and ensure that project personal data related activities are carried out in accordance with international best practices.

Component 2: Strengthening employment services and programs

17. Component 2 aims to improve SES' capacity to perform its core tasks including clients' assessment, counseling, job matching, and referral to appropriate employment programs. It also aims to support MLSPP efforts to expand and improve VTCs. Beneficiaries of this component are the inactive and unemployed registered with SES, with a focus on women, youth, IDPs, and TSSA beneficiaries.

Subcomponent 2.1: Labor market assessment and development of a VTC strategy

18. This subcomponent will support SES in assessing and responding to short- and medium-term skills demanded by employers. To this end, the project will finance (i) a comprehensive labor market assessment to improve SES' capacity to detect vacancies, critical occupations and skills most demanded by employers; and (ii) the development of a strategy for expansion and improvement of VTCs.

¹¹ The 27 rayons include Binagadi, Khazar, Yasamal, Nasimi, Surakhani, and Khatai sub-rayons in Baku, the Sumgait rayon in Absheron, Ganja-Nimazi, Shamkir, and Tovuz rayons in Ganja-Gazakh, the Gabala and Shaki rayon in Shaki-Zaqatala, the Masali and Lankaran rayon in Lankaran, the Khachmaz and Guba rayon in Guba-Khachmaz, the Shirvan Mingachevir, Yevlakh, Barda, Goychay, Imishli, and Salyan rayons in Aran, the Agydam and Fuzuli rayons in Yukhari-Garabagh, Ismayili and Shamaki rayons in Daghlig Sirvan. Project activities will only be carried out in areas controlled by the Government.

¹² MLSPP defines livestock as asset transfers of cows, sheep, goats, and chicken. Transfers of bees (for honey production), which have proved successful under the project pilot, are not classified as livestock.



Subcomponent 2.2: Outreach, profiling, skills assessment and case management for job-seekers

19. This subcomponent will deliver further activities to improve job matching rates in SES. The project will finance (i) the development and rollout of a communication and outreach strategy for the inactive and unregistered population, as well as firms; (ii) the development of a statistical jobseeker profiling tool and a skills assessment test for jobseekers, along with relevant trainings for SES staff; (iii) the development of online instruments to integrate the profiling tool and skills assessment to the SES MIS; (iv) the introduction of a case management model in the SES; and (v) the production of user manuals and training materials, and the delivery of SES staff training in utilizing these instruments. To address the low rate of economic activity among women in Azerbaijan, outreach activities will be tailored to inactive females, with a view to increase their registration with SES as jobseekers. Case management approaches will also be developed with a view to respond to gender-specific labor market barriers (e.g., care responsibilities or transportation constraints).

Component 3: Project management, monitoring and evaluation

20. The objective of this component is to strengthen the capacity of the MLSP to implement the proposed project and use monitoring and evaluation (M&E) data on the labor market interventions that the ministry implements, including through SES. This component will inform evidence-based policy making by providing the Government with a strengthened M&E system. Data generated through this system will be a critical input to labor policy decisions in the future.

Subcomponent 3.1: Project management

21. This subcomponent will finance a project implementation unit (PIU) in MLSP to manage the project. The PIU will be responsible for procurement, financial management, social and environmental requirements, as well as for monitoring and regularly reporting on project’s implementation, in compliance with the Bank requirements. This subcomponent will finance consultants’ fees for the PIU staff, equipment (including IT-related) and software as necessary for project management, and operational costs. It will also finance the required annual financial and technical audits of the project.

Subcomponent 3.2: Monitoring and evaluation

22. This subcomponent will support MLSP to strengthen its M&E system to better track project implementation and monitor key labor market interventions. This will ensure that programs’ operations follow expected design and procedures, receive systematic and organized feedback from beneficiaries and employers, and assess key labor market interventions to foster a positive feedback loop into policy making and program design updates. The monitoring and evaluation capacity will be strengthened at SEP, SES and ministry level.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No



Summary of Assessment of Environmental and Social Risks and Impacts

23. The environmental risk of the project is rated as moderate because project activities will not cause environmental risk or impact on human population and environment. The social risk is rated as moderate reflecting: (i) significant political and governance risks outlined in the project concept note; (ii) the required analysis of a broad range of social issues, including measures for improving beneficiary targeting; (iii) the capacity building support to the client for effective stakeholder engagement; (iv) support to comply with the overall Environmental and Social Framework necessary for this project. Overall, the project does not have significant negative social impacts and the project aims to improve employment opportunities among women, youth, TSSA beneficiaries and IDPs who are either inactive or unemployed registered with SES.

24. Citizen Engagement. Local consultations with existing SEP beneficiaries and potential SEP participants – representatives of TSSA beneficiaries and / or vulnerable groups have been conducted during the project preparation. Citizen engagement activities will include (i) periodical beneficiary satisfaction surveys; (ii) a dedicated online consultation portal for continuous collection of beneficiary feedback and (iii) a participatory mechanism through local consultations to involve central and local stakeholders to provide a consultative platform related to economic sectors priorities for SEP financed businesses and ensure local citizens' engagement. A grievance redress mechanism with specific activities linked to each component will be established.

25. Disability inclusion. According to MLSPP data, there are about 620,000 people with disabilities in Azerbaijan. Approximately 14 percent of current SEP beneficiaries are persons with disabilities (PWD). Component 1 of the proposed project includes PWD within its target group and the project is expected to directly contribute to the agenda of labor market inclusion of PWD in Azerbaijan, complementing UNDP's efforts.

26. Gender. Azerbaijan has a substantial gender gap in labor force participation of around 22 percentage points, and a high share (approximately 30 percent) of female youth are neither in education, training or employment. The project aims to contribute to narrowing the gap between men and women's labor force participation through both participation in SEP as well as in other programs implemented by SES. Specific actions are outlined in (i) Subcomponent 1.3 that will focus on strengthening outreach and application in local SES centers particularly for women to increase their participation in SEP; and in (ii) Subcomponent 2.2 that will support tailored outreach activities targeting inactive females, with a view to increase their registration with SES; and will support gender-sensitive case management approaches to consider labor market barriers specific to women. The project will establish data collection mechanisms to facilitate the monitoring of gender results and impacts, with indicators disaggregated by gender whenever possible.

27. Climate co-benefits. The potential to add adaptation co-benefits associated with the SEP program will be assessed.

E. Implementation

Institutional and Implementation Arrangements

28. The project will be implemented under the leadership of the Ministry of Labor and Social Protection of the Population (MLSPP) of the Republic of Azerbaijan. Implementation will be supported by a PIU to be established within the Employment Policy Department, and with the close involvement of the State Employment Services (SES); a



subordinated agency of MLSPP). The project will be implemented through the network of local State Employment Service (SES) centers, in cooperation with local stakeholders. The key implementing body of the program will be local offices of the SES, while trainings will be delivered with the involvement of Vocational Training Centers (VTCs). The project will leverage existing local coordination arrangements at the level of rayons for advisory and consultative purposes.

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APPROVAL

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