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UNITED NATIONS DEVELOPMENT PROGRAM (UNDP), Baku, Azerbaijan

Project of the Government of the Republic of Azerbaijan -UNDP " Reconstruction of War Damaged Areas" UNDP No. AZE1971003

Terminal Evaluation Report

1. Context

This report is based on an Evaluation Mission that took place in Baku, Azerbaijan from January 26 to February 10, 2000 for the purpose of completing an assessment of the AZE1971003 Azerbaijan Reconstruction Programme . Started in June 1997, this joint Government and UNDP initiative, with UNDESA¹ as a cooperating agency, is funded for two years, and comes to an end in June 2000. It is a national executed project, and as such this evaluation focuses on the UNDP participation, not on Government's² performance. The Mission was conducted by ROJOFRAN Inc. of Ottawa, Canada, independent consultants, in accordance with UNDP Guidelines for Evaluators (August 1993).

Consultations were held with the UNDP Project Officer, major stakeholders including World Bank representatives, the UNHCR, TACIS and World Vision International, in Baku, with officials of the Project implementing agency ARRA (Azerbaijan Agency for Reconstruction and Rehabilitation of Areas), SIGMA³ and their staff in the field, at Goradiz (in the Fizuli District).

Terms of Reference for the study, detailed in Annex II to this report, sought to:

- review results and efficiency of program expenditures;
- review the project from the human aspect;
- review and propose options for improved implementation;
- assess the operational capability of ARRA and its further need for capacity building;
- assess the desirability for UNDP to engage further in such Project activities.

It must be noted that in the lapse of time between the drafting of such Terms and the mission itself, a series of evaluations of the Project, in full and in part, were conducted by other independent missions, listed in Annex I. The

fact that this project was reviewed thoroughly six times over two years is in itself remarkable. The fact that each of these missions had praise for efficiency and effectiveness of the program delivery mechanisms, can not be underestimated. One of these "supervision" missions by the World Bank served to raise a Supplemental Credit of USD 10 million establishing a Social Fund for the Development of IDPs ⁴. We take this as a signal of confidence in the worthiness of the project objectives and renewed trust in the

¹ UNDESA : United Nations Department of Economic and Social Affairs . UNDESA was included in the project in a backstop advisory capacity. The role of the Cooperating Agency is fully documented in a Letter of Agreement between the Government of Azerbaijan (Executing Agency) and UNDESA (Cooperating Agency). It is to provide the Government with technical assistance, recruit personnel, identify training needs, organize training for ARRA, assist in establishing a bidding process, work with local authorities, monitor and report on project progress and achievements. ² Throughout this paper, "Government" refers to the GoA or Government of Azerbaijan. ³ SIGMA, a national NGO: Strategic Research Center for Development and International Collaboration.

⁴ IDPs: Internally Displaced People. The term distinguishes migration flows internal to the country, due to war, from the temporary displacement of segments of the population across national boundaries.

national authorities administering it. There is a consensus that this endeavor is worthy of continued interest and investment by the international community.

2. Background

The project being evaluated is in fact the second part of an initiative taken by UNDP in 1996 at the request of Government (i.e. GoA or Government of Azerbaijan). At that time, jointly with the World Bank, the UNDP took the lead in supporting the creation and strengthening of ARRA while at the same time testing the operational implementation of Reconstruction and Rehabilitation efforts. This was Phase I (AZE1961008), followed in May 1997 by Phase II (AZE/971003), now the subject of evaluation. Phase I budget was USD 500,000, during which the UNDP invested USD 200,000 for institutional capacity building of ARRA and USD 300,000 in the actual rebuilding of physical infrastructures. Phase II budget, started in June 1997, was USD 2,762,350 which includes three distinct parts: (a) USD\$335,000 to sustain and strengthen ARRA; (b) USD 1,163,414 to rehabilitate schools, hospitals and public facilities, and (c) a World Vision International contract to promote self employment of IDPs through USD 660,000 in Micro-Credit Projects. Government contributed residual budget amounts.

While the UNDP pressed ahead in May 1997 with its design and approval of Phase II, a study of income generation was being completed ⁵. Later the same year, in December 1997, the World Bank, in association with the European Commission and UNDP formed Work Groups of UNHCR/ World Bank /UNDP and proceeded with the development of a most thorough feasibility study which would become the blueprint and backbone of a development strategy that underpins project delivery to this day. The document identifies population and institutional needs, quantifies the level of assistance desirable, considers options and constraints and prescribes a development approach. The Government ⁶, through its State Commission on Reconstruction and Rehabilitation of Areas (SC) and ARRA, and in consultation with its major partners, the European Commission, the UNHCR and UNDP produced an overall work plan calling for an investment of USD 117 million (10% of damage). This evaluation report accepts those earlier well documented assessments and turns to the future, to offer views on the need, nature and desirability of UNDP to enter into a Phase III. To the extent that there is a limited territory covered by the project and that those approaches are being tested, we call this a pilot project that could become a model for a more extensive intervention if more territories were to be liberated in the next few months. This pilot project is scheduled to end four months from now, so that the "terminal" aspect of this evaluation really applies to the amounts and approaches decided by UNDP during the past three years, not to long lasting effects of the intervention.

3. Structure of the report

The report mimics the sequence of the UNDP evaluation rating system ⁷ which has three foci: relevance, performance and success. The rationale, objectives and impacts of UNDP's involvement, through ARRA, are successively examined in the perspective of the presence and capabilities of major key players and partners of UNDP in this Reconstruction and Rehabilitation effort. Since the inception of Phase I in 1996, the intervention timeline of many international organizations and NGOs has had a concomitant effect on results.

When assessing the extent of project causality, it becomes important to isolate what ARRA and UNDP bring to project achievements in the field, as project impacts could be the result of combined efforts to be shared

⁵ Refer to doc. No. 3 of Annex I : *Study on Ways and Means to Ensure Employment*

³ Government, throughout, will refer to the Government of Azerbaijan (GoA).

⁷ *UNDP Evaluation Findings in 1994*, p. 77; Office of Evaluation and Strategic Planning of the UNDP published in 1995: relevance analyses purpose, approach, modalities; performance addresses efficiency and achievements; success is linked to effectiveness, capacity building, and sustainability.

by those organizations that have put more money and resources into Reconstruction and Rehabilitation, such as the World Bank; UNHCR; TACIS programme; ECHO; the Islamic Bank; World Vision International, and SIGMA, to name just a few.

In addition, the Terms of Reference for this study require highlighting the promotion of sustainable human development as an important single dimension of Phases I and II. In the same breath, one could add a special concern for sustainable ecological development. The Terms of Reference also dictate that the report shall address the desirability for UNDP to remain present in the field by means of a third phase to this project.

4. Programme Relevance

4.1 project rationale

At the time the Pilot project was conceived and approved, the Country Cooperation Framework (CCF) approved by UNDP's Executive Board in May 1997, linked UNDP's role to poverty alleviation in areas affected by conflict, sustainable livelihoods through employment and income generation and the strengthening of governance through institution capacity building. It is reasonable to say that each and all of those objectives have been pursued and met to a large extent during the project.

4.2 project approach

The approach shifted between Phase I and Phase II, from relief to development, from Reconstruction "bricks and mortar" to a role closer to UNDP's traditional expertise at identifying and coordinating technical assistance, project management and monitoring. This welcome shift was in the direction of testing an income generation experiment that had had successful implementation in a similar war-damaged environment, in Sofia, Bulgaria. As this pilot project progressed, the government, at the behest of the IAG, indicated its desire and priority to turn attention to agriculture, which corresponds to the abilities and interests of this rural population, and to focus increasingly on the role of NGOs to assist in the Rehabilitation process.

In addition to its reconstruction effort of the first Phase, and its continuing support for the strengthening of ARRA's coordination capabilities, the UNDP introduced a concept of micro-credits predicated on the need to foster income generation. One of the proposals made for introducing this came from Sigma in a discussion paper of February 1998, where roles and responsibilities for drafting business plans, approving them and issuing loans were

presented for review and approval ⁸. It is not sufficient for IDPs to return home to a ravaged economy. They have to rebuild lives, sustain families, health and education, all of which is premised on family income and employment. UNDP has been instrumental in experimenting, in the Fizuli district, with different means of estimating market potential, of issuing credits safely, of assisting individuals learn the rudiments of market economy, and in sustaining the State coordinating agency, ARRA, which makes all of this happen.

By all accounts of the past six evaluations ⁹, UNDP would appear to be rather successful in this experiment. An external review done by a new Zealand firm of the World Vision projects in Horadiz ¹⁰ claims that "the

⁸ Refer to doc. No. 9 of the Annex I. A full description is offered of the mechanisms and respective roles of banks, NGOs, and IDPs to make the system work.

⁹ As can be seen from the Reference List in Annex I, many missions, reviews, studies have concluded over the past while that this pilot project is producing positive results. These are shown in **bold**.

HMEDP is a good and thus far successful program but it probably has limited ability to affect the lives and livelihoods of the people of Horadiz in its present format." To get away from the format, the study emphasizes the need to convert HMEDP into an agricultural project which includes both agricultural and business components. To a certain extent, the World Vision success or failure is not at the center of our study, but the reference to a continuing improvement of the micro-credit system is, and this explains why we make reference to the HMEDP review. It shows how intricately mixed are the results of UNDP's project, its experimental micro-credit programme and the actual field delivery impacts of World Vision International. It also draws the attention to the increasing importance to turn towards the agricultural credits, away from the craftsmanship and other types of micro-businesses.

4.3 project modalities

ARRA's range of activities exceeds this one pilot project and extends to other districts such as Nakhichevan, Ter Ter, Agdam. Its coordination with international organizations embraces investments in home building, irrigation, electricity, communications, farming, health care and such essential elements of human settlements. Income generating activities, so critical to the evaluation of this project, represent 13% of the overall Government budget of USD 117 million for Regional Reconstruction and Rehabilitation (R&R), and the budget for the Fizuli area targeted here stands at USD 32 million or 27% of the total. From a managerial point of view, investments are either managed by ARRA, such as funds from the World Bank, UNDP, TACIS; or investments are managed by outside organizations such as ECHO, UNHCR through international NGOs, in close cooperation with ARRA; or finally, managed independently by NGOs.

The level of ARRA involvement varies for these three types: for World Bank/ UNDP projects, ARRA will seek concurrence of the IAG before moving ahead; with UNHCR, ARRA will exchange lists of aid recipients and IDPs and other database information; for investments needing joint cooperation, ARRA makes the selection of target locations where the NGO should deploy itself in the field; and for the outside international aid delivered by NGOs, they are on their own, with cyclical progress reports for information.

Under the pilot project, ARRA is in charge of the organization and implementation of R&R activities - both conceptually and operationally. ARRA provides independent bookkeeping and administers the bidding process to let contracts out. ARRA monitors work in progress and issues payment upon satisfactory completion of the work.

The UNDP, World Bank and European Community, as well as UNHCR and major stakeholders sit on the IAG advising the Deputy Prime Minister and Chairman for the State Commission on Reconstruction and Rehabilitation of Areas (SC), responsible for ARRA, on policy aspects. There is much to do on that front, as the Commission doesn't meet that often and issues of ARRA interest tend to be discussed more informally between IAG members.

A single most important feature of the UNDP project being assessed at this point is the micro-credit program. It was designed to create employment in Goradiz and it is administered by an Executing agency, World Vision International, under contract with ARRA. World Vision currently distributes monthly food rations, in collaboration with the World Food Program (WFP), to over 188,000 IDPs in 30 districts of Azerbaijan. In addition, World Vision has run the Azerbaijan Enterprise Fund (AZEAF) since 1995 to start and expand over 3,200 businesses and loan out USD 1.2 million.

¹⁰ Refer to doc. No. 25 *Horadiz Microenterprise Development Project (HMEDP)* project review submitted by World Vision International and dated September 25, 1999. (see page 15 of the report).

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With regards to the pilot project, World Vision has a contract to provide USD 600,000 in income generation credits for micro and small businesses ¹¹. World Vision has the mandate to organize this work at the field level, to create necessary forms and controls, to review credit and business plan risks, to map out market potential and to account for a revolving fund of some USD 250,000. It has been difficult to find Executing agencies, experienced, able and ready to deploy the right staff, with the required linguistic abilities and business savvy to perform this kind of work. While it is true that there have been criticisms of the acceptance criteria used to screen out proposals, it is true that neither Government nor multilateral agencies have come out to accept liabilities in the event on repayment defaults.

5. Performance

This "terminal" evaluation is being conducted at a time when the long lasting effects of the programme are not known. What is observable, however, is that there is an overwhelming social consensus among all the major stakeholders concerning the urgency to resolve, at the local level, the unemployment issue that plagues IDPs. Part I of the Project assisted many of them to reintegrate their homes, but now, they have to earn a living, repay debts and support growing families. As Part II of the project nears the end, the emphasis on investing, on creating micro-enterprises, and on establishing agro-credits falls very naturally into place.

5.1 delivery efficiency

The World Bank Supervision Mission ¹² of December 1999 goes into the details of Micro-credits and grants, and seeks a "comprehensive review of the on-going micro-credit program being implemented by World Vision" (par. 9) : this brings into focus an unresolved issue about the appropriate rate of loan defaults. As of January 2000, World Vision was proudly holding to a rate of over 90% repayments with some 850 recipients, seeking to minimize the costs of bad debts. In terms of efficiency, the success measure would appear overwhelmingly satisfactory. What needs to be highlighted, in spite of "efficiency" indicators, is the longer term concern about what happens when the NGO pulls out: who assumes responsibility and proprietorship of the income generation fund ¹³ ? who takes risks, and who's liable ¹⁴ ? We were not able to resolve the details during the evaluation period. If this can be kept at the level of a technical decision rather than a policy matter, it is likely it will become resolved that quicker.

Meanwhile, another concept has cropped up, whereby ARRA is considering "free cattle" grants to agricultural workers; thus exacerbating the issue of free handouts versus repayable loans based on in-depth risk analysis and loan administration. The issues are compounded: what interest rates to charge; when to offer free grants or

stricter contributions; how to set default ratios; and, determining who assumes the funding risks for such assistance programmes.

5.2 achievements

¹¹ Refer to doc. No. 31 in Annex I: It provides a one-page overview on World Vision involvement in Azerbaijan.

¹² Refer to doc. No. 26 in Annex I: *Supervision Mission of December 8-18, 1999, by the World Bank.*

¹³ Refer to doc. No. 12 in Annex I. Ownership of the fund is discussed in detail, and WVI commits to establish a local non-governmental organization to provide a sustainable and ongoing mechanism for micro and small enterprise credit. (see pages 6 and 7).

¹⁴ Refer to doc. No. 12 in Annex I where World Vision undertakes to register AZEF.

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Both the World Bank "supervision mission" mentioned above and ARRA spare no paper to recite tangible achievements in the field ¹⁵. UNDP's pilot project (AZE/971003) provided the inspirational spark for major donors to enter the fray and produce observable results in many areas; civil works in the field; numerous IDPs resettled; small business start ups with micro-grants; procurement of 2500 head of cattle; issuance of land titles; agricultural inputs such as fertilizer, pesticides, fuel; intense training activities to shape new economic mentalities in a post-soviet era; creation of a Water User's Association; information dissemination on other government services and programs; physical investments in health and education; restoration of power lines and pumping facilities; and ARRA's considerable technical assistance in screening bids, monitoring work, paying contractors. This study limits itself to acknowledging that Phase I produced tangible reconstruction results and that Phases I and II contributed to the existence of ARRA which in turn coordinates all the observable results listed here.

Our observation tour for two weeks has provided us ample testimony that the UNDP Office in Azerbaijan can be credited with working closely, hand in hand, with ARRA, the World bank, TACIS, UNHCR and other multilateral organizations to provide all the strategic guidance that ARRA needed. The multiplicity of reports in last while converges to say that UNDP has demonstrated reasonable concern and diligence for Human Sustainable and Ecological Durable Development issues. It is also noted that the effort initiated through a pilot project can not (or should not) be abruptly interrupted at this point in time.

Achievements can also be observed in the regular and sustained support for ARRA, financially to get it started, and administratively by providing studies and guidance through the IAG on strategies and project delivery mechanisms, such as the inception of the micro-credit programs for individuals and microenterprises. The UNDP works in close cooperation with the World Bank, and the latter, one month before the current study, offered a number of precise suggestions to ARRA and UNDP on the current conditions of Income Generation. In its "supervision" report ¹⁶, the World Bank says, among other things "The mission informed ARRA that the new proposal for granting micro-credits is too narrow since it provided for feed only". Upon verification with World Vision, this will not be the case and new proposals are in the making for consideration late in February 2000.

We bring this World Bank remark to the surface to illustrate the achievement of due diligence by the project authority regarding the channeling of considerable amounts of money into IDP hands. The example highlights the complexity of fine tuning risk assessments in an emerging local market and in meeting the mix of expectations between World Bank officers in a distant capital, ARRA, local leaders and an NGO delivering the services in a war-damaged area.

Achievements rest with UNDP's protégé organization, ARRA, which was able to attract USD 70 million of the overall USD 117 million project budget. This is to the credit of professional and managerial abilities of ARRA staff,

to coordinate outside Donors, Executing agencies in the field, local recipients in the wardamaged areas, and international organizations such as UNDP, World bank, ECHO, TACIS, and so many others.

¹⁵ Achievements stated by ARRA are contained in periodic reports: refer to List items no. 14, 21 and 30. ¹⁶ Refer to doc. 26 of Annex I : *Supervision Mission of December 8-18, 1999, by the World Bank*

6. Success indicators

6.1 program impacts and effectiveness

In the context of this mission, a site visit was organized by UNDP to enable a first-hand consultation of the beneficiaries of UNDP's investment in ARRA and in the income generation portion of the pilot project. At the center of discussions was the micro-credit programme, how it is administered locally by two NGOs, Word Vision and Sigma. We observed that the latter two organizations do not collaborate much and are at odds on a number of sensitive issues.

Sigma was involved, at the time of visit, in a careful and meticulous review of market conditions, to diagnose and assess risks for the subsequent step that would be to launch micro enterprises. Lists of potential participants were being drawn, indicating the economic or trade category of their proposed business, ranging from bakery and sewing occupations to various agricultural and husbandry occupations. This detailed survey and assistance to individuals who are ready to draw up business plans is a laudable exercise. At best, though, it could be a bench test for future initiatives of the kind. The thrust of Sigma's work is to delineate areas of the economy where World Vision could, at a later date review such business plans and more safely lend money to kick start small businesses. We found that Sigma's detailed analysis of individual business plans is most time consuming and time is of the essence to get the economy rolling. Meanwhile, World Vision has been in the more fortunate position of handing out loans and reviewing credit applications for amounts ranging from USD 500 to USD 5,000. With a 98% repayment rate at the present, and 80% of credits approved for farm related activities, World Vision International can legitimately be satisfied with churning over USD 250,000 in micro-credit opportunities.

Yet, on the same day of our visit, we discovered that neither Sigma nor World Vision is reaching the farmers that we were given to interview. The representative interviewed said that the farmers had received little support and were now operating at only 25% capacity. This is significant in order to point to a number of observations for the future: (1) Sigma and World Vision could possibly accomplish more by joining efforts than entertaining rivalries between NGOs. This should be a matter of concern for ARRA. Specifically, this returns to a remark dating two-year back, when it was said, "there exists room for greater interaction and coordination between NGOs, donors, the private sector and the Government. These actors need to increase their transparency, establish mechanisms for more direct contacts."¹⁷ (2) If there were better consultations from the grass roots up, through Community Based Organizations, maybe the farmer running at 25% capacity could expose the situation and initiate problem resolution. It is interesting to note, in this respect that the UNDP Mission report by Kedar P. Badu of July 1998 ¹⁸ examined this issue and made specific suggestions to remedy the gap. (3) The Sigma activity is very important, in particular when empowering individuals and showing them how to build a business case, and this is food for thought for UNDP's future involvement if there is to be a Phase III. Earlier, in January 1998, this independent

expert had been reviewing the program and made a practical suggestion along those lines ¹⁹; (4) The trend away from micro-credit to craftsmanship where markets are unsure towards agriculture related enterprises is now strongly entrenched, and this corresponds to the Government's priorities.

None of what has been said here can downplay and downgrade the most valuable and dedicated work of both NGOs. Nor does it reflect badly on ARRA that market studies are difficult and slow in the making. It is

" Refer to doc. No. 18 *Washington Symposium*. Minutes and notes, paragraphs 8 & 9.

¹⁸ Refer to doc. 13 , item 1 *the Goradiz Income Generation project* contains a number of comments suggesting the establishment of assembly meetings (Selskiye Skhodi) and CBOs (Tovarishetvos's) to give people a chance to make their own analysis of their needs.

^v Refer to doc. No.8 of Annex I. That document's Annex-4 (p. 12) discusses the need for Macro and Micro credits, an idea that the ARRA Director wished to pursue with UNDP in due time.

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neither our purpose, intention nor mandate to assess overall impacts of Sigma, TACIS, Islamic Bank, World Vision and any of those working in field. We can only bring a testimony of what we saw during the field trip and noted in the course of our research and interviews with respect to the excellent work and true success stories that have resulted of their combined efforts, under ARRA coordination. This offsets, to a limited extent the observation in the 1999 Human Development report ²⁰ published during the current study. It states: "the reach and effectiveness of the micro-credit programs have been weak, however, because of the absence of clear regulations on credit programs outside the banking sector". There seems to be room for improvement on that front.

6.2 capacity building

This mission examined the issue of leadership and strategy pursued by ARRA in the current setting. We found that the strategy pursued arises of the elaborate work plan set out in the World Bank feasibility study of 1998 ²¹, reinforced by a continuous consultation process of the IAG. The IAG met only once on the occasion of the launching of the feasibility study by the World Bank, but has kept sustained communication between its members and ARRA senior management. Strategies and priorities flow from this consultation process. In addition, there have been no less than six occasions to take stock of progress and sharpen the vision for things to come. We are therefore satisfied that from the standpoint of leadership and strategy, things have worked out satisfactorily in the limited context of a pilot project. If the operations were to be expanded to cover all of Azerbaijan's war-damaged regions, once freed from occupation, leadership mechanisms would have to be regularized and formalized more. At the moment, ARRA reports to the State Commission, a word empty of meaning if it is limited to one person. In an expanded context, one would expect to see more interaction and integration of Government policies on matters of Agriculture, Repatriation, Statistics, Employment, Trade and so forth, as they all bear simultaneously on the new patterns of IDP resettlement after the war.

The leadership structure itself does not have to change, but against a backdrop of soviet domination and culture, and in light of the number of international agencies offering their assistance for Reconstruction and Rehabilitation (R&R process), it would be of great value to seek a rejuvenation of the current management team at ARRA. The new generation, more prone to absorb the culture shock of international presence and values, needs to work with the present establishment to open ARRA to new social development paradigms. Among the needs for renewal, one would first suggest increased attention to participatory management of the R&R process through Community Based Organizations.

For ARRA, good leadership translates in tight control over the management of money, the release of bids and tenders, the monitoring of work in the field. Accounting reports are produced on time, meet auditing standards, are sufficiently detailed to trace expenditures by line object and are presented and countersigned every Quarter by UNDP. This shows an organization that is run smoothly, a feature that is both desirable and commendable. Faced with demands ten times the current scope of business, ARRA will have to find ways to operate with the same rigor

and yet trust partners, work with communities and attempt to satisfy Donors and deal with a greater number of foreign technical advisers and NGO managers, who for the most part communicate in English.

The mission observed that eligibility and selection criteria, building standards, service level standards are communicated reasonably well to the Executing agencies in the field, as long as we are in a pilot project mode. It may become necessary to envisage a more systematic dissemination of operating procedures and directives on such issues as micro-credit regulations and conditions or redress mechanisms when IDPs

²⁰ Refer to doc. No. 27 (page 50)

²¹ Refer to doc. No. 10 of Annex I : *Feasibility Study, Volume I* prepared in cooperation with ARRA, the World Bank and a multidisciplinary group of experts.

wish to appeal decisions. Systematic and broad availability of rules, regulations, directives and procedures will only facilitate the work of ARRA's international partners in R&R and provide more transparency to the operations.

The ARRA organizational core was initially set to a level of 12 to 15 staff, and has now grown to 30 in order to ensure regional presence outside of Baku. This was sufficient to ensure the success of the pilot project but would not be sufficient for a much larger scale operation. Even as things are presently, ARRA can not delegate much authority directly to field representatives, and we find them flocking to ARRA Headquarters once a month to sign off on contractual work completed. The mission noticed that the first and last day of each month are unnecessarily hectic and unproductive, because of unreasonable delays imposed by such outside agencies as the government's State Statistics Committee, who wish to be informed at once of all detailed ARRA operations. This is the kind of administrative problem that could and should be resolved quickly by the State Commission on Reconstruction and Rehabilitation. Moreover, these workload peaks could be avoided if field monitoring was delegated to competent, professional and well-linked representatives in the field. "Well linked" meaning that field offices would have the necessary office equipment to keep the Baku headquarters informed and could use the benefits of modern telecommunications to avoid travelling hundreds of kilometers over difficult terrain in order to sign certificates, make interim payments and keep the accounting systems as clean as we were given to observe them during the mission. This aspect needs improvement.

ARRA still lacks experience with international donors and needs to develop its linguistic ability to reach out and better understand the objectives, methods and success criteria of first line operators. This observation was underscored at a regular meeting of NGOs, which we were privileged to attend, where the Director of ARRA was invited to give a presentation. This unique opportunity of sharing concerns with ARRA's partners was rather used to list achievements in a consecutive interpretation session that brought out the shortcomings in communications and dialogue strategies. The organizations directly involved in action in the field couldn't recognize the figures reflecting their share of the overall R&R budget. The glossy material offered, at least yearly, by ARRA is hardly more than an accounting of projects completed; a dance of millions spent to date; and a set of colorful graphics in search of explanations. This is a managerial weakness that could be corrected to the greatest advantage of this coordinating body.

The UNDP financial subsidies to ARRA are set to terminate in June 2000. In view of the time it took to build ARRA's capacity, to strengthen its relationships with Donors and Executing agencies in the field, it would be unwise to dismantle ARRA just at the moment when a peace agreement is at hand and UNDP's pilot project may be turned into a full scale operation. Even though ARRA has incremental revenues, from TACIS, for example, which gives it 2.5% of assistance funds to cover the operational costs this represents a fluctuating revenue base and should not become the basis and most important source of funding. Whereas UNDP has invested in *capacity building*, this effort needs to be completed for a few more years, in view of the imminence of an enlarged ARRA mandate.

Great care should be taken to preserve this by not denying ARRA of its basic operational budget. Indeed, ARRA can now act as the operating agency for TACIS. That is the beginning of self-sufficiency, but it may be yet too

early to cut subsidies. ARRA has come a long way because the key ARRA players are hard working and dedicated professionals. If structures are formalized and if ARRA, which essentially is a Government entity, was to be funded exclusively by the State, there could be a loss of key managers, as it is anticipated there would be a massive downward salary adjustment. In the interest of stability and further strengthening of ARRA's capacities, it is preferable to extend the current subsidization arrangements between UNDP, the World Bank, the European Community and other major Donors.

6.3 sustainability

Throughout the mission, interviews and examination of previous mission reports, we satisfied ourselves that the UNDP Office has demonstrated continuing concern for sustainable development. This concern was not an after thought but formed part of the initial thrust of the pilot project proposal: "special attention will be given to these issues (environment protection and regeneration) in the retraining programmes and formulation of rehabilitation projects" ²². For example, once the irrigation systems are in place ²³, efforts are now being made to set up a Water Committee that will ensure that water bills get paid and that infrastructures are kept in good repair.

Considering a transition from pilot project mode to an enhanced R&R coordination role for the nation, UNDP would be well advised to pursue its effort to stabilize and improve ARRA's self sufficiency in a certain number of distinct areas. For example, the *Manual of Procedures*²⁴ prepared in 1996 could be further clarified with regards to liabilities when running a loan and credit system. Under current arrangements, the multilateral organizations are seeking full protection against repayment defaults, leaving full exposure to Executing agencies such as World Vision. This is a discussion reflected in the minutes of TPR on December 9, 1998: "at the end of the agreement with WVI, a community institution -an NGO or a credit union-must take over the responsibility for the micro-credit scheme. The rules and regulations of UNDP do not allow it to transfer to ARRA or the Government the capital of the revolving fund." ²⁵. And while program strategy was embedded in the World Bank feasibility study of 1998, there would be a need to redefine IAG and ARRA roles once the pilot project terminates in June 2000. The sunk costs in institutional sustainability and capacity building must be preserved by shrewd planning of the transition period to self-sufficiency.

The UNDP could also concentrate its efforts on training aspects, as it has done with the UNDESA Civil Society unit that trains NGOs in community involvement and development. This concept would prove most useful in a gradual transition from the soviet mode of relying on the State to the new market economy and democracy paradigm. Training of this sort is already part and parcel of individual loan conditions under the micro-credit program, and the UNDP has in its Year 2000 budget a built-in line object dedicated to the support and development of Community Based Organizations.

7. Sustainable Human Development

As has been described, UNDP could not sit idle in the face of IDP's misery. We concur with a statement made in the ARRA brochure on the partnership with UNDP: "the lead role of the UNDP is fundamental in aiding ARRA to motivate international organizations to be involved in the reconstruction of liberated areas and to raise funds" ²⁶. The UNDP in Azerbaijan was true to its mandate of coordinating technical assistance and putting its granting power at the service of sustainable human development. Such issues Housing, Employment, Environmental regeneration, Income Generation and Capacity Building, were directly and promptly factored in the two first phases of the project. UNDP has a complementary role to UNHCR with regards to providing IDPs with immediate shelter and with their long-term ability to improve their livelihood.

Previous assessment reports provide abundant examples of the numbers of houses and public facilities that were refitted and upgraded with UNDP funding. These can be observed physically when visiting the sites. By the same token, the UNDP set programme funding and delivery mechanisms such that IDPs would gradually take their fate

into their own hands with the availability of small loans to jump start the R&R

²² Refer to doc. No. 5 (page 13) - Special Considerations ²³
Refer to docs. No. 21 and 30 of Annex I ²⁴ Refer to doc.
No.2 of Annex I ²⁵ Refer to doc. No. 17 (summary table,
on page 3). ²⁶ Refer to doc. No. 12 (page 16) - Conclusion

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process at the family level. The use of World Vision International to administer the USD 660,000 microcredit system was again directly aligned with sustainable human development objectives. The 1999 report *on Human Development* ²⁷ gives a broad-brush description of long term approaches in this respect.

But the brochure falls short of revealing that there was still USD 261,000 uncommitted funds in the ARRA budget as of December 31, 1999. This may be for the reasons explained by the Interregional Adviser (IRA) in his September 1999 mission report ²⁸: "unless the client population or the credit conditions change, it is unlikely that all or even most of the resources available under the scheme will be lent in the near future". Market conditions are a key to making the micro-credit system a success. An extensive study, made in 1997 by Abdulalimov R. Alesker ²⁹, sees a role for UNDP to sustain and encourage the professional level of local administrative authorities, to develop a banking system, and foster the establishment of legal, organizational and technical pre-conditions and pre-requisites for securing employment and developing small and medium businesses. Our argument here is that the micro-credit programme needs to be discussed some more and the administrative details worked out for a better take up of available credits.

Finally, it must be stressed that the quality of environment is a key for human well being. With the rapid industrial and agricultural exploitation of the Absheron Peninsula resources under Soviet regime, development came at a cost of total environmental neglect and unsustainable economic growth. Water resources are scarce in Azerbaijan and that puts an additional pressure on the R&R urgent relief efforts, that water utilization, irrigation and water treatment infrastructure works be most efficient as possible. So there may be a role for UNDP to work increasingly with the State Committee on Ecology, to get them on side with ARRA as part of a concerted effort at integrating national policies when responding to IDP needs. As reported in the 1999 Human Development Report" continuing regional and international cooperation is essential to effective resolution of many environmental concerns" ³⁰.

8. Options for the future

The work for ARRA is far from over. Its presentation of facts and figures ³¹, as of 1.12.1999 points to the availability of at least USD 66.9 million in grants and interest-free loans that are already approved. And this does not cover the possibility of a peace agreement, which would unleash R,&R needs in a large part of the country not covered yet by the Government masterplan.

The above tour of the Reconstruction and Rehabilitation program opens a number of avenues. The UNDP has successfully, as we have seen, created the conditions for a pilot project that will likely now be expanded to a larger scale in the event of a peace agreement and the return of more territories.

²⁷ Refer to doc. No. 27 of Annex I - Box 5.6: this summarizes the Government's sustainable development strategy for IDPs.

²⁸ Refer to doc. No.24 of Annex I, pp. 3-4 "income generation". Full discussion of the context in which the IG

component of Project AZE/97/003 is realized.

²⁹ Refer to doc. No. 3, pp 18, 19, 20 discussion of proposals to stimulate not only the financial renewal and prompting of the market, but a parallel effort to alter mentalities and enhance training and understanding. Refer to doc No. 27 (page 39)

³¹ Refer to doc. No. 14 of Annex I : Graph on p.9 shows 41.35 mln\$ unused grants. Graph on p.10 shows 25.6 mln\$ unused long-term interest free loans.

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The following is a list of ideas and recommendations that may be of use to ARRA and to UNDP in deciding whether to engage in a third phase of the pilot project:

UNDP:

Institution Building: ARRA reports to a State Commission (SC) which must evolve from a one-person organization to become fully institutionalized and operational. This means increasing ministerial representation, increasing the ties with the Repatriation branch of government.

- Recommendation: The UNDP needs to "keep a foot in the door" by ways of a contribution that would lend it a voice at the IAG level. Different Ministries can be encouraged, through this mechanism, to come together and speak with one voice on a number of Human settlement issues. One ought to read this suggestion in the context of the International Monetary Fund stipulation that has been set for the release of the last tranche of ESAF-EFF credits to Azerbaijan, namely a *submission of the plan of activities directed to reorganize and improve the workings of the Cabinet of Ministers*

Capacity Building: A number of stakeholders and development partners have confirmed what the six previous evaluation reports document abundantly: that Project AZE1971003 is one of the best administered by UNDP. The Country Review report of 1999 issued by UNDP is non-equivocal: "One particularly important contribution of UNDP to the country has been its building of the capacity of ARRA" (p.11) and "UNDP has been effective in capacity-building activities" ³² (p.28). This is not the right time to jeopardize ARRA's viability. Yet, there has to be a sunset clause to subsidization. It is necessary to strike a balance between State financing of a State institution and the current reality of salary levels.

- Recommendation: UNDP needs to complete the transition and phasing out planning by discussing the subject of operating costs and source of funding for ARRA, present and future, at the level of IAG. Some of the monies can be derived from a percentage of Aid packages administered by ARRA as is the case with TACIS., but there needs to be a clear vision of ARRA's self sufficiency. Part of this discussion would cover the transfer of the micro-credit funds when the pilot project ends.

CBOs : This is a favorite theme of developing country assistance by the UNDP. The idea can be found in suggestions made in a Strategic Note of March 1997, when the ARRA capacity was being developed: the term used then was Village Rehabilitation Councils (VCRs) ³³. It would appear to having been put on the back burner, maybe because it is a formula that has worked elsewhere but that must take into account the soviet cultural heritage. Encouraged by UNDP, ARRA should set a budget for training IDPs so as to develop a new paradigm surrounding the use and application of micro-credits to individuals and SMEs ³⁴ and their representatives in risk taking and market economy concepts, which is an inescapable step in moving from a soviet style to a market economy. Micro-credit programmes will not work properly until mentality change.

- Recommendation: UNDP could consider a line item for up to three years, in ARRA's budget, to stimulate the interest in this formula at local level and to subsidize the initial operating costs of embryonic CBOs being structured and animated by the IDPs themselves. This recommendation takes up a previous suggestion made by another consultant that Social Rehabilitation Centers be created ³⁵.

³² Refer to doc. 23 of Annex I : *UNDP in Azerbaijan* : prepared in August and September 1999, the report contains recommendations supported by a mission that included two Deputy Prime Ministers of Azerbaijan as well as multilateral and bilateral aid representatives..

³³ Refer to doc. No. 4, page 5 of Annex I. This is a survey where IDPs are interviewed and "underline the necessity of creation of specific bodies of self-management.

³⁴ SME: small and medium enterprises - Micro-credits an range from USD 500 to USD 5000, depending on the size and likelihood of repayments of loans.

³⁵ Refer to doc. No.8 of Annex I. A suggestion made two years ago by Kedar P. Badu in his review of the program.

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Income Generation: This is the way to go. The pilot project offers lessons about the difficulties in setting up the system, kick starting the economy, coordinating with other Government Ministries. There is still room for improvement in the setting of pre-requisites for productive market conditions. The Sigma effort in Goradiz needs to be reviewed and maybe generalized , with more work at the conceptual level and less involvement in the treatment of individual cases.

- Recommendation: UNDP must find ways of unblocking the tremendous resources still left untouched (e.g. the USD 261,000 shown lapsing in the December 1999 ARRA budget). It would be wise to commission an expert study to assess the likelihood that Sigma's detailed research and assistance being conducted these days in Goradiz can effectively be applied at large, on a national scale when the occupied territories are freed. At this point, we remain doubtful that this can succeed on a large scale. And it would be interesting to revive the ARRA's Director opinion of January 1998, reported by Kedar P. Badu to the effect that "only by providing Micro-credit, we cannot uplift economic activity in Fizuli". There may be a need for micro and macro credits at a scale proportional to the uptake by local entrepreneurs.

Sustainable Development (Human, Ecological) : The UNDP has a leadership role to play. While repatriation and reconstruction are taking place, there needs to be a concerted effort among Ministries and State Committees to improve the environment and to renew social cohesion in reunited communities. This requires an intense and targeted international effort, already acknowledged by the number of reports that call for local population participation in the decision making process. As long as the UNDP Office in Baku has a project and financial stake in the R&R process, it will have a say at the IAG, and that is a key platform to cater to such the humanitarian and ecological concerns. When the pilot project was being launched, the justification papers said : "It has also placed the UNDP in a strong position to promote a dynamic and responsive approach to the rehabilitation process..."³⁶. It is our suggestion now that this lead role needs to be maintained and that increasing attention be turned to sustainable environmental and human development issues.

- Recommendation: Considering the number of past reports on the pilot project, the UNDP Office should make a tally of suggestions and recommendations that have yet to be implemented. This in itself would trace a course of action and guide a possible Phase III, with a renewed commitment and emphasis on Human Development issues and ecological restoration of war-damaged areas.

ARRA:

Coordination and leveraging: ARRA can not do everything alone. The more NGOs get involved in the field, the better, proving there is a rigorous framework for managing resettlement and employment programs homogeneously around the country. NGOs must get along together, as in the case of Sigma and World Vision International. They are at present engaged in activities that are the two ends of the same spectrum. One organization helps IDPs formulate their business plan; the other assesses the plan and lends money.

- Recommendation: ARRA could act as a catalyst and mediator to increase the ties, mutual acceptance and operational cooperation between SIGMA, a national NGO, and World Vision International.

Managerial efficiency: A review of quarterly accounting reports shows that ARRA has fared very well in containing operational costs. We share the views expressed in the World Bank's mission of December 1999, that" ARRA has managed a considerable amount of complex work in a short time. The agency deserves praise for doing so at

what is expected to be a notable savings over appraisal estimates." But we think the ARRA people can do more to make their job more manageable, more efficient. Considering the reporting level of the State Commission on Reconstruction, ARRA management should not be complacent

³⁶ Refer to doc. No. 5 (page 3)

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about rules and legislation that are hindering its delivery of emergency relief and resettlement for large parts of the population (Azerbaijan counts near 13% of its population in the IDP category). ARRA would be in a position to ask for either dispensation or revocation of arbitrary rules, such as imposed by the State Statistics Committee, that directly interfere with ARRA's efficiency.

- Recommendation: ARRA must manage its end-of-month workload peaks better, even if this requires referring the matter to the State Commission.

Policies and strategies: There are at least two different philosophical approaches to helping IDPs, one being to give them, free of charge, cattle, feed, seed so that they can initiate on their own a market economy; conversely, UNDP has been funding a contribution program where IDPs are accountable for loans to buy the cattle, feed or seed. This may be an occasion to implement the institutional concepts of an IAG advising the State Commission and instructing ARRA to promulgate a coherent policy on assistance to IDPs.

- Recommendation: ARRA should pursue this issue of a create a clearer delineation between "grant" situations - giving cattle free of charge, and "contribution" situations where there are loans and repayment schedules.

Communications: For example, publishing and upgrading building standards and making this information available to ensure all IDPs are treated equal and fairly.

- Recommendation: ARRA needs to work increasingly better with NGOs, to share on a partner basis with them at meetings. There is a need to improve on Communications, and that may mean the establishment of a full-blown service able to deal with the many foreign organizations that have come to help Azerbaijan. This would possibly mean contracting out the preparation of brochures to specialist firms. This recommendation reaches the same conclusion as the latest World Bank mission of December 1999: "It was agreed that ARRA will intensify the activities in this area" (p3. Par. 13.)

Rejuvenation of the management team : ARRA is managed by dedicated and hard working individuals.

The team may yet have to expand, in the regions in particular. This could be the opportunity to bring new blood, possibly individuals who have been less impregnated by the values and systems of the soviet era.

- Recommendation : At every recruiting opportunity, emphasis should be put on including younger and fully competent professionals of different walks of life : engineers, accountants, sociologists, business financiers, industrialists, public sector planners, communications (public relations) specialists so as to cover the full variety of challenges that face ARRA, not only at headquarters in Baku, but in dealing with NGOs and emerging CBOs in the field.

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**Project of the Government of the Republic of Azerbaijan -UNDP
"Reconstruction and Rehabilitation Program" UNDP No. AZE1971003**

**Terminal Evaluation Report
Commented List of Reference Documents**

Highlighted in **BOLD** characters are "evaluation" documents done recently.
These documents were prepared independently from each other. All converge on
Project UNDP AZE/97/003, in whole or in part.

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2. ARRA. 1996. *First Draft of the Manual of Procedures* by Piet Goovaerts, consultant - mission 5-27 September 1996. Sets roles and responsibilities for ARRA and the International Advisory Group, as well as an outline of an organizational structure.
3. UNDP. 1996. *Study on Ways and means to Ensure Employment and Implement Income Generation in Returned Areas (Goradiz, Fizuli Region) Involving Directly IDPs/Returnees*. By Abdulalimov Rouslan Alesker oglu. December 23, 1996. Also referenced SSA No. 0169
4. NGO Azerbaijan. 1997. Attachment of a Strategic Note *Results of a sociological interrogation of residents of Fizuli raion about the community participation in rehabilitation of territories suffered from military operations*. March 1997. A 4-page commentary on survey statistics and the "necessity of creation of specific bodies of self management- Village Rehabilitation Councils (VRCs)."
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7. KPMG. 1997. *Audit Report for the year ended December 31, 1997*. Document by KPMG accounting auditors.
8. **UNDP. 1998. Project Review Mission Report, as of 26 January 1998. By Kedar P. Badu. A detailed review of the Micro-Credit component of the Azerbaijan Reconstruction programme.**
9. SIGMA (Center for Strategic Studies of Development and International Cooperation Problems). 1998. *Draft of the Program Stimulation of Profit-Bearing Activity of the Population of the Urban Settlement Goradiz and its Area*. This report outlines the detailed mechanisms envisaged to release micro-credits to individuals, the role of banks, the structuring of an expert commission, and to consider the business plans.

10. ARRA. 1998. *Feasibility Study for the Resettlement and Reconstruction Program of the Liberated Areas, Vol. 1*. A joint UNDP/ARRA/ World bank Document dated 27 February 1998, prepared with the State Commission for Rehabilitation of Areas. A blueprint of an elaborate program to be carried out over the period mid-1998 to mid2000.